RR

82D CONGRESS
1st Session

SENATE

REPORT
No. 1039

DOMESTIC LAND AND WATER TRANSPORTATION

UNIV. OF MICH.
OCT 29 1951
LAW LIBRARY

PROGRESS REPORT

OF THE

SENATE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

BY ITS

DOMESTIC LAND AND WATER TRANSPORTATION SUBCOMMITTEE

PURSUANT TO

S. Res. 50

(81st Congress)

(Continued by S. Res. 308, 81st Congress, S. Res. 55, 82d Congress, and S. Res. 154, 82d Congress)

OCTOBER 19 (legislative day, OCTOBER 1), 1951.—Ordered to be printed with illustrations

UNITED STATES
GOVERNMENT PRINTING OFFICE
90771 WASHINGTON : 1951

FOREWORD

The Committee on Interstate and Foreign Commerce has authorized with reservations the issuance of this progress report by Senator Bricker. It represents long and analytical study and lengthy hearings on the investigation of domestic land and water transportation conducted under Senate Resolution 50 by Francis J. Myers, Chairman of a Subcommittee of this Committee.

Upon the request of Senators Bricker and O'Conor, the information developed so far is being made available in this progress report to the Senate and to the public. However, the conclusions and recommendations which are extremely controversial and which have been incorporated in this report represent the views of the authors and have neither been approved nor disapproved by the Senate Committee on Interstate and Foreign Commerce.

(Signed) EDWIN C. JOHNSON, *Chairman.*

CONTENTS

	Page
I. General	1
A. Scope and purpose of investigation	1
B. The American transportation system	2
II. Regulation	4
A. The origins of Federal regulation	4
B. The changing pattern of Federal regulation	4
C. The national transportation policy	8
D. The necessity for impartial regulation	10
III. Need for change in specific regulations	12
A. Long-short haul clause	12
B. The agricultural commodities exemption	13
C. The bulk commodity exemption	15
D. Contract carrier by motor	17
E. Private carrier by motor	19
F. Trip leasing	21
G. Dormant water carrier operating authorities	23
H. Exemption of contract carrier by water	24
I. The necessity of setting rail rates with a view to their effect on competing water carriers	24
J. Commodity clause	25
K. Summary: Impartial regulation	26
IV. Federal aids to domestic land and water transportation	27
A. Aid to inland waterways	28
B. Justification claimed for subsidies to inland waterways	33
C. Revision of Federal promotional policies for inland waterways	37
D. Aid to highways	38
V. The particular problems of the railroads	45
A. Railroad revenues	47
B. Railroad expenses	48
C. Operating and managerial efficiency	49
D. Railroad capitalization	50
E. Head-end losses	51
F. Losses in the transportation of mail	51
G. Losses incurred in the carriage of passengers	55
H. Effect of Federal taxation on the railroads' financial condition and the national transportation policy	59
I. Railroad rate making	61
J. Problems of State regulation	67
K. Diversion	68
VI. Conclusion	71
APPENDIX	72

APPENDIX

Table 1. Public aids to transportation and the amount paid by users	72
Table 2. Motor-vehicle registration in the United States, 1900–1948	73
Table 3. Ratio of net income to net worth of leading corporations	74
Table 4. Freight ton-miles	74
Table 5. Intercity passenger-miles	75
Table 6. Freight and passenger service revenues and expenses, class I railroads	75
Table 7. Freight ton-miles for railroads, water carriers, motor carriers, and pipelines	76
Table 8. Intercity passenger-miles traveled, continental United States	77

	Page
Table 9. Trend of wages and cost of living, 1929–49	78
Table 10. Revenues, expenses, and net income, railways of class I in United States	79–81
Table 11. Dividends, 1938–48, line-haul railways and their lessor subsidiaries	82
Table 12. Average rate of depreciation on equipment, railroads of class I	82
Table 13. Public aids to highways, 1920–48	83
Table 14. Federal, State, and local taxes paid by highway users, 1901–48	83
Table 15. Highway expenditures and special motor-vehicle taxes, 1929–48	84
Chart 1. Freight ton-miles, railroads, water carriers, motor carriers, and pipelines	85
Chart 2. Intercity passenger-miles traveled, continental United States	86
Chart 3. Trend of wages and cost of living	87

82D CONGRESS } SENATE { REPORT
1st Session } { No. 1039

DOMESTIC LAND AND WATER TRANSPORTATION

OCTOBER 19 (legislative day, OCTOBER 1), 1951.—Ordered to be printed with illustrations

Mr. BRICKER, from the Committee on Interstate and Foreign Commerce, submitted the following

PROGRESS REPORT

I. GENERAL

A. SCOPE AND PURPOSE OF INVESTIGATION

Senate Resolution 50, adopted April 11, 1949, directed the Senate Committee on Interstate and Foreign Commerce to make a full and complete study and investigation of the national transportation system. This subcommittee was created by the full committee for the purpose of investigating problems relating to domestic land and water transportation. The Subcommittee on Domestic Land and Water Transportation has conducted its investigation in accordance with the mandate in Senate Resolution 50 to determine:

(a) whether existing conditions conform to the national transportation policy as declared in the Interstate Commerce Act,

and

(b) the effect of large expenditures of public moneys and private capital upon transportation charges and to what extent such expenditures are reflected in costs of production and prices to consumers;

Since April 1949, the subcommittee has been engaged in a broad general study of domestic land and water transportation to ascertain the extent to which the following objectives of national transportation policy have been achieved:

(*a*) Fair and impartial regulation;

(*b*) Sound economic conditions in transportation and among the several carriers;

(*c*) The establishment and maintenance of reasonable charges for transportation services; and

(*d*) The development of a national transportation system adequate to meet the needs of the commerce of the Nation, of the postal service, and of the national defense.

The recommendations herein proposed are intended to encourage the development, coordination, and preservation of a strong, well-balanced national transportation system. In the absence of such a transportation system it will be impossible to meet the needs of an expanding economy upon which the maintenance of our standards of living, and—more important—the security of the Nation itself, depend. Accordingly, we urge that the recommendations contained herein be effectuated at the earliest practicable date.

B. THE AMERICAN TRANSPORTATION SYSTEM

The United States possesses more than half of the world's transportation facilities. These facilities include over 227,000 miles of railways; 3,300,000 miles of public roads; 27,000 miles of inland waterways; 150,000 miles of pipelines; over 6,200 civilian airports, and 40,000 miles of airways. Without this magnificent transportation system the United States could not maintain either military or economic supremacy in the world today.

The tremendous size of the transportation industry has always made its study difficult. In 1949, for example, companies subject to the jurisdiction of the Interstate Commerce Commission reported aggregate revenues in excess of $14,000,000,000. The total annual cost of transporting persons and property in the United States has been estimated at approximately $38,000,000,000.[1] The total public and private investment in transportation was estimated by one witness at $100,000,000,000, or almost 20 percent of the Nation's capital values.[2]

From the standpoint of size the transportation industry is second only to agriculture. For more than 30 years, however, there has been a recurrent transportation problem which has received the attention of a long list of congressional committees, of boards, commissions, and of economists. The subcommittee has tried to focus its attention on the fundamentals of national transportation policy.

The interest of the Federal Government in transportation is clear. An efficient and healthy transportation industry is an indispensable arm of national defense. In addition to military considerations, the Federal Government has a large financial stake in the Nation's transportation system. Within the last 50 years, the Federal Government has spent approximately $64,000,000,000 on the development of transportation facilities.[3] In the fiscal year 1949 the Federal Government spent approximately $1,200,000,000 on its transportation programs.[4] The Hoover Commission reported that Federal agencies dealing with various aspects of transportation employ about 89,000 people.[5]

The national transportation system has been created in part by private capital and in part by public funds. The Nation's transportation business, however, is conducted almost entirely by private management. Only in rare cases has the Federal Government attempted to compete with private enterprise for traffic. Nevertheless, the Federal Government has expended billions of dollars in providing transportation facilities for, and in subsidizing directly, particular forms of

[1] National Transportation Policy, Dearing and Owen, p. 3.
[2] Subcommittee hearings, p. 1228.
[3] Table 1, appendix, infra., p. 72.
[4] Report of the Hoover Commission, p. 12.
[5] Ibid.

transportation. The bulk of public expenditure has been incurred in promoting highway transportation ($59,100,000,000), inland waterways ($4,100,000,000),[6] and air transportation by a sizable amount which is now under consideration by the Interstate and Foreign Commerce Committee. In spite of the Government's huge and rapidly mounting investment in certain transportation fields, there does not appear to be any desire on the part of the Federal Government to supplant the private enterprises which operate in those fields.

Not all elements of the transportation system have shared in Federal transportation largess. The railroads and the pipelines have provided their own transportation facilities without significant Government financial assistance. Whatever contribution the Government may have made in the distant past has been repaid several times over.[7] The Federal Government has indicated no intent to supplant private enterprise in railroad or pipeline transportation. The use of Federal funds, however, to aid selected types of transportation to the exclusion of competing carriers, may compel the Government to take over the operation and management of those carriers against which it discriminates. Where a particular class of transportation has been benefited by Federal aid, the benefits have not always been distributed equitably among the different types of carriers in that class. Such discrimination presents the question of whether or not private enterprise in American transportation should be preserved.

The 129 class I railroads and the 550 smaller lines constitute the backbone of our national transportation system. They are indispensable for the simple reason that they carry freight which cannot be moved by any other carrier or combination of carriers. The 1946 Nation-wide railroad strike is sufficient proof that even in peacetime the Nation's economy is built around rail transportation. During World War II the railroads moved about 97 percent of all military freight and about 70 percent of all other intercity freight. The financial distress of this vital segment of the transportation industry in a period of relative prosperity represents the most serious threat to the preservation of the American transportation system as we know it today.

Another matter of grave concern is that motor common carriers are regulated to a far greater degree than motor carriers which do not make their services available to shippers generally. As a result, the financial condition of other common carriers is precarious. A basically sound transportation policy cannot tolerate discrimination against carriers which render a general transportation service.

For more than 30 years the major transportation problem has been the inability of the railroads to earn enough to insure their continued operation under private management. The subcommittee does not feel that its concern over the financial plight of the railroads should be interpreted as bias in favor of a particular form of transportation. Further deterioration in the railroads' financial condition would make their nationalization almost inevitable. It is not likely that the Government would promote other forms of transportation under private management in competition with its own operation. Therefore, in the opinion of the subcommittee, the operators, owners,

[6] Table I, appendix, supra., p. 72.
[7] Ibid.

employees, and users of all other transportation services have a vital interest in preserving the financial stability of the railroads under private management.

It is no accident that railroads are selected first for nationalization by socialistic and communistic regimes. Control of the railroads is indispensable to economic planning on a large scale. Government ownership of the railroads places private industry and agriculture at the mercy of the state. The addition of railroad workers, and eventually workers in other fields of transportation, to the government payroll tends to insure perpetuation of political power.

In our opinion the crux of the transportation problem is how to preserve private ownership and management of the indispensable common carriers without discriminating against competing carriers and without revolutionizing the American transportation system.

II. Regulation

A. THE ORIGINS OF FEDERAL REGULATION

The Act to Regulate Commerce, approved February 4, 1887, marked the entry of the Federal Government into the field of transportation regulation. For some 60 years, the railroads had enjoyed virtually unrestrained freedom of operation, coupled with what rapidly became a monopoly of the Nation's traffic. While this climate encouraged and made possible fabulous expansion of the rail systems, it also nourished increasingly widespread abuses. Discriminatory service and unreasonable and preferential rates became common. It was evident—particularly where the public interest and economy was adversely affected—that some governmental supervision was necessary. The problem first was seen as a local one, and several of the individual States established railway commissions to meet it. The interstate character of the railroads, however, proved these efforts of the several States to be ineffectual, and in 1887 the Congress passed the Act to Regulate Commerce, which was to become, in 1920, the Interstate Commerce Act.

B. THE CHANGING PATTERN OF FEDERAL REGULATION

The earliest efforts of State governments to subject railroads to regulation were born of the necessity of protecting immediate users of the service from the abusive rate and service practices arising from the railroads' monopoly of the transportation field. This principle of protecting the transportation user was firmly established in initial Federal regulation, and subsequent legislation reaffirmed it as the basis for enactment of new regulatory measures. With some modification, this theory persists today as a dominant theme in the concept of railroad regulation and, to a lesser extent, of regulation of other carriers. In 1940, the Congress enacted, as a preface to the Interstate Commerce Act, a declaration of policy which listed as objectives among others, "to promote safe, adequate, economical, and efficient service" and "to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages."[8] Secretary

[8] 49 U. S. C. Notes preceding secs. 1, 301, and 901.

of Commerce Charles Sawyer, in his report to the President of December 1, 1949, stated flatly that "the primary purpose of regulatory controls is to protect the user of the transportation service."[9] In discussing criteria for determining the proper scope of regulatory authority, Secretary Sawyer further said that decisions "with respect to the extension or relaxation of regulatory controls should be made on the basis of the net and ultimate effect upon the transportation user."[10]

The necessity for protecting the user of any service is greatly lessened by the advent of competing suppliers of that service. The transportation industry has been no exception to that rule. Competition is the antithesis of monopoly, and as motor carriers and water carriers challenged the supremacy of the railroads in certain areas of operation, the need for regulation of the railroads, as it had previously been exercised, diminished accordingly. By 1920, although competing carriers had not yet substantially invaded the railroads' province, the pattern was becoming evident. The Congress, realizing that unbridled competition in a field so vital to the national economy might well be destructive of the industry, began to shift the emphasis of regulatory legislation to a new concept, looking to the ultimate protection of the using general public and to the continued welfare of the industry itself. It is this theory of regulating competition in the interest of and for the protection and promotion of the competing carrier that has increasingly characterized legislation in the transportation field in the last 30 years. It is this same theory which has resulted in regulation of the railroads in apparent direct contravention of the declaration by the Congress that there be provided "fair and impartial regulation of all modes of transportation" subject to the Interstate Commerce Act.[11]

It is important to observe that this new concept in regulation was still at least partially intended to strengthen the policy of protecting the transportation user against the monopoly of the railroads. In its zeal to encourage competition the Federal Government delayed regulation of competing carriers for a considerable period of time. When motor carriers, water carriers, and airlines were subjected to regulation, the existence of competition resulted in a less onerous form of regulation than that which applied to the railroads. Also, with the intent of fostering competition and protecting certain shipping interests, substantial segments of the industry were left unregulated. The effect on regulated carriers, both rail and motor, has been detrimental but not completely unforeseen. The most effective method of promoting competition was for the Government itself to provide the basic transportation facilities for, or to pay money subsidies to, competing carriers. It soon became apparent, however, that the promotion of competition by uneven regulation and by Government promotional activities was undermining the health of the less-favored forms of transportation.

By 1935 the motor-carrier industry had become an important segment of the Nation's transportation system, and the preponderance of opinion by then was in favor of regulation. According to the Coordinator of Transportation, regulation was desired and essential, due to the "instability and uncertainty of the rate situation," one of

[9] Issues Involved in a Unified and Coordinated Federal Program for Transportation: A Report to the President from the Secretary of Commerce, December 1, 1949, p. 58.
[10] Ibid., p. 79.
[11] 49 U. S. C. Notes preceding secs. 1, 301, and 901.

the reasons leading to "wasteful and destructive competition (the sort of thing that has been referred to as 'rate wars'), and also, perhaps the most important thing was that shippers felt the situation was chaotic and harmful to all forms of transportation. There would have to be regulation to give a proper degree of order and stability and insure its success in the future."[12]

The annual reports of the Interstate Commerce Commission for many years prior to 1935 recommended that Congress enact motor-carrier regulations. Beginning with the Sixty-ninth Congress (1925–26), and in each succeeding Congress, motor-carrier bills recommended by the ICC and the State commissions [13] were introduced.

In reporting to the Seventy-fourth Congress,[14] the Commission and the Coordinator of Transportation recommended that legislation be considered and enacted speedily. The chairman of the Senate Committee on Interstate and Foreign Commerce explained the difficulties which had been encountered, in the following words:

> The question, as it seems to me, is this, and I want to call attention to it: We have had this truck and bus bill up here for several sessions. Many times it has not got out of the committee because of objections made by different people. Once we got it on the floor of the Senate and it was sent back here. There has been quite a decided feeling in the Senate, and in the House, that there should not be any regulation of trucks and busses by the Federal Government because of the fact that it is a new industry, and as has been stated, is in a stage of development, and we should not attempt now to regulate it at all. Consequently, the idea of the bill was to make a start in the thing, and then after you have made a general start to see that the Commission studies the problem, and thereby find out what further should be done.
>
> I know what the practical difficulties are as to getting any legislation of this kind through the Congress. Even if you make it as mild as you can you have a great many difficulties in getting legislation of this kind, or of any similar character, through the Congress. The only thing, as it seems to me, that could be done is to get a bill enacted, and then let the Commission make a study of these different problems, and then they will be in better position to come back and recommend to Congress whether or not it needs to be strengthened or corrected.[15]

Regulation of motor carriers was principally justified before Congress by the contention that competing agencies and carrier classes could not find their economic spheres in the transport system while competition was either free or largely unrestrained among the motor and water carriers, but comprehensively controlled among the rail carriers. It was argued that the situation would lead to rate cutting below average cost, and therefore, to some traffic movements by agencies not best fitted for them.

Such competitive adjustments were also declared to be financially unfair, particularly to the railroads. Control of entrance into and operations in the motor and water fields, together with minimum rate regulation, were advocated to correct these conditions.

The regulation of motor carriers enacted in 1935 was based on two principles. The first of these recognized the necessity of preventing an oversupply of transportation. In urging motor-carrier regulation in 1935, the Coordinator of Transportation stated that—

> The most important thing, I think, is the prevention of an oversupply of transportation; in other words, an oversupply which will sap and weaken the transportation system rather than strengthen it.

---

[12] Senate hearings on S. 1629, 74th Cong., 1st sess., pp. 78-79, and 88.

[13] In numerous States the ICC held extensive investigations; 140 I. C. C. 685; 182 I. C. C. 263.

[14] Regulation of Railroads (S. Doc. 119, 73d Cong., 2d sess.); Regulation of Transportation Agencies (S. Doc. 152, 73d Cong., 2d sess.); and Report of the Federal Coordinator of Transportation, 1934 (H. Doc. 89, 74th Cong., 1st sess.).

[15] Senate hearings on S. 1629, op. cit., pp. 187-188.

In the case of railroads, that was done in 1920 by the provision that prior to any new construction a certificate of convenience and necessity must be secured from the Commission. In my judgment, it would have been much better if there had been such a provision many years before. It would have prevented certain railroad construction which tends to weaken the railroad system and situation at the present time. The States have, I think, in all cases, found the necessity in their regulation of motor transportation to provide for that prevention of an oversupply * * *.[16]

The second principle was the prevention of wasteful and destructive competition, not only within groups of carriers but among the different forms of transportation. The proposed 1935 bill provided for a public agency which could prevent competition from going beyond sound economic limits.[17]

The Motor Carrier Act of 1935, as passed, and which was to become part II of the Interstate Commerce Act, was therefore based almost entirely on the idea of controlled and limited competition, as distinguished from the earlier limitation on railroad monopoly. The limitations of the act, however, were largely intraindustry in nature. It was not until 1940 that the Congress, in enacting the Water Carriers Act, now part III of the Interstate Commerce Act, recognized the interindustry competitive effects. It then specifically disclaimed any intent that the possible depression of rail rates need be considered in fixing water rates.

The major inadequacies of the regulation of motor carriers under part II of the Interstate Commerce Act have arisen as a direct result of Congress' unwillingness in 1935, in the face of evident strong competition, to blanket a relatively new industry with Federal regulation. Several aspects of this will be discussed in detail in this report. It is sufficient at this point to state that the entire regulatory fabric of the 1935 act was of loose weave, with numerous broadly stated exemptions. These exemptions are at least partially attributable to the practical difficulties in getting any legislation of this sort through the Congress. Concessions to one bloc or another are clearly shown in the legislative history of the act. The more important factor, however, was the Congress' natural concern for the protection of a newly regulated segment of the industry, which has become characteristic of recent Federal regulation. The tendency to promote a regulated industry through the means of the regulation itself has become somewhat of a principle in national regulatory policy. Proponents of this view are at least partially supported by the declaration of national transportation policy, and some analysts of the present regulatory situation. The Sawyer report, for example, speaks of a "transfer of attention from the needs of the user of transportation service to the needs of the transportation itself" and a shift in emphasis "to regulation which would protect the financial health of the carriers."[17a]

The subcommittee does not believe that regulatory policy should be influenced by any such paternalistic attitude. If each form of transportation is permitted to compete for traffic on a basis of equality, and to perform the service for which it is inherently best qualified, the financial health of particular carriers would not become a matter of governmental concern. The whole system of free enterprise is based

[16] Ibid., p. 78.
[17] Ibid., p. 79.
[17a] Issues Involved in a Unified and Coordinated Federal Program for Transportation, op. c. 4., pp. 2, 3.

on the conviction that competitive forces automatically will provide the Nation and its citizens with products and services which are far superior to those obtainable under an economy controlled and directed by the Government. Thus, when the automobile destroyed the business of the carriage makers, it was viewed as a sign of progress rather than a cause for Government intervention.

In the light of conditions which now prevail in the transportation industry, the concern of the Government over the financial stability of particular carriers is wholly legitimate. There is convincing evidence that the poor financial condition of certain carriers is due in large part to unsound regulatory and promotional policies of the Federal Government. The subcommittee believes that sensible regulatory and promotional policies would obviate the necessity of the governmental action designed to preserve the financial health of any particular form of transportation. Industries sheltered against the onus of competition soon become ripe subjects for nationalization.

C. THE NATIONAL TRANSPORTATION POLICY

The statement of national transportation policy is set forth in the Transportation Act of 1940.[18] In brief, that policy calls for (1) "fair and impartial regulation of all modes of transportation"; (2) regulation among the several carriers "so administered as to recognize and preserve the inherent advantages of each"; (3) "safe, adequate, economical, and efficient service" and "sound economic conditions in transportation"; and (4) "the establishment and maintenance of reasonable charges for transportation services." These general principles are designed to achieve the following end objective:

> * * * all to the end of developing, coordinating, and preserving a national transportation system by water, highway, and rail, as well as other means, adequate to meet the needs of the commerce of the United States, of the postal service, and of the national defense.[19]

The subcommittee recommends no substantial change in the declaration of national transportation policy. In our opinion that declaration should remain the yardstick for evaluating the action of all Government agencies concerned with transportation. Existing conditions in the transportation industry are not satisfactory because the declared policy too frequently has been forgotten. Congress itself is partly to blame. A considerable body of legislation is inconsistent with the declaration of policy. The courts and Federal transportation agencies generally have failed to give the declaration of policy adequate weight. There is a good reason why a statement of transportation policy should be treated as an integral part of the substantive law and not merely as one more congressional declaration of noble purposes. The complexities of the transportation industry make it impossible for Congress to spell out detailed, self-executing rules. Properly implemented, the broad standards prescribed by the declaration of policy promise much better regulation than detailed statutory provisions.

"Fair and impartial regulation of all modes of transportation" does not exist. Failure to achieve this objective of national transportation policy is hardly surprising in view of the numerous statutory provisions which authorize discriminatory regulation. For example,

[18] 54 Stat. 899.
[19] Interstate Commerce Act.

fully regulated interstate carriers, both rail and motor, have been damaged by the statutory exemption [20] which immunizes some 40,000 truckers from interstate regulation.[21] This exemption, which is sizable, is dwarfed by the fact that of 7,692,569 trucks in existence, something over 7 million are not under Federal regulation.[22]

A large volume of domestic water traffic is of bulk commodities and therefore is exempt from regulation by the language of section 303 (b) of the Interstate Commerce Act.[23] The commodities clause [24] and the long and short haul clause [25] are examples of other restrictions which apply to the railroads but not to their air and highway competitors. Some of these matters will be discussed at length in subsequent pages of this report.

The Federal Government's promotional activities have operated to prevent the "sound economic conditions in transportation" envisioned in the declared policy of Congress. When the Army Corps of Engineers plans an expensive inland waterway improvement project it does not consider the effect of its action on other forms of transportation. The airport and airway development programs of the Civil Aeronautics Authority and the subsidy program of the Civil Aeronautics Board are carried on without regard to the possibility that the revenues of competing carriers may be impaired dangerously. Although the Federal Government has spent billions of dollars in providing certain transportation facilities, there has been no consistent policy with regard to payment for the use of such facilities. Some carriers contribute to the cost of Government-provided facilities, but little effort has been made to determine whether they are paying more or less than their fair share. Other carriers use Government-provided facilities free of charge. The net result of the Federal Government's promotional activities has been to distort rather than to promote the "inherent advantages" of various modes of transportation.

It should be obvious that subsidies to selected forms of transportation are inconsistent with those provisions of the national transportation policy which relate to fostering "sound economic conditions in transportation" and to preserving the "inherent advantages" of each form of transportation. In addition, if subsidies shift a part of the cost of transportation from the user to taxpayers generally, it hardly can be contended that the policy of "reasonable charges for transportation services" has been satisfied. These conclusions apply, of course, whether the subsidy is paid directly or indirectly through the furnishing of transportation aids and facilities at less than a fair-user charge. The present subsidy program can be reconciled with the national transportation policy only on the assumption that the statement of policy applies solely to the regulation of domestic land and water transportation, and not to the regulation of other types of transportation or to any promotional activity of the Federal Government. Some support for this interpretation exists in the following language:

> It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of *all modes of transportation subject*

[20] The so-called agricultural exemption is found in sec. 203 (b) (6) of the Interstate Commerce Act.
[21] Subcommittee hearings, p. 234.
[22] Table 2, appendix, infra., p. 73.
[23] Amended, Transportation Act of 1940, sec. 303 (b).
[24] Ibid., sec. 1 (8).
[25] Ibid., sec. 4 (1).

to the provisions of this act, so administered[26] [to achieve named objectives] * * * [Emphasis added.]

It follows, then, that the declaration of national transportation policy should be amended so as to make its provisions applicable to all agencies of the Federal Government engaged in regulating or promoting any form of transportation. This is based on the belief that our national transportation policy must cover all forms of regulated transportation, including transportation by air. We also feel that a system of transportation coordinated as described in the policy declared by Congress can never be attained so long as economic regulation and promotional activities continue to operate at cross purposes.

The national transportation policy also calls for "economical" service. The following statement from the Sawyer report is indicative of emphasis which may be given to the objective of low-cost service:

> As will be indicated later, supplementary objectives exist within the framework of this over-all objective, but the development of an adequate and low-cost transportation system is the keystone of Federal transportation policy.[27]

New fashions in the field of Government cost-accounting require some agreement on the meaning of "low-cost." If the cost referred to means only what the transportation user pays, every subsidy program satisfies the low-cost objective of national transportation policy even though traffic is diverted from transportation media which have an inherent advantage in handling it. The benefits of low-cost service are illusory if part of the total cost of transportation is borne by general taxpayers. If shippers do not pay the full cost of the transportation service they use, traffic generally is diverted from transportation media inherently better able to serve them. A lavish subsidy system distorts user preferences to such an extent that soon it becomes impossible to evaluate the inherent advantages of any form of transportation. We fully agree with the statement:

> A sound and adequate domestic transportation system is most likely to result if the users of each means of transportation pay the costs which are fairly attributable to their use.[28]

Inland waterway improvements have been justified by the Army Corps of Engineers on the ground of providing cheaper transportation service, despite the fact that the cost of such improvements is not reflected in transportation charges. It is not made clear in the statement of national transportation policy whether the objective of low-cost service refers only to what the shipper pays or to the total cost of providing a particular transportation service.

D. THE NECESSITY FOR IMPARTIAL REGULATION

The national transportation policy contains an unequivocal declaration by the Congress that there should be provided "fair and impartial regulation" of carriers subject to the act. The Congress expressed its recognition of the necessity for uniformity of regulation as a prerequisite to a sound national transportation system. It seems obvious that regulation must be administered on a fair basis. Preferences and discriminations inevitably will result in a weakening of the carrier discriminated against, with a consequent deterioration of that carrier

[26] Interstate Commerce Act, amended by Transportation Act of 1940.
[27] Issues Involved in a Unified and Coordinated Federal Program for Transportation, op. cit, p. 2.
[28] Report of the Board of Investigation and Research on Public Aids to Domestic Transportation, H. Doc. No. 159, 79th Cong., 1st sess., p. 88.

and a depletion of the Nation's transportation assets. Discriminatory regulation is at best unjust; in a time of emergency it may be disastrous to the Nation.

Regulation of the railroads at the present time is not uniform with that of competing carriers. The lack of uniformity is due primarily to the wide variance in time and concept among the legislative, administrative, and judicial histories of the regulation of rails and the regulation of competing carriers. The great expansion of the railroads had long subsided when the Congress concerned itself with the development of the industry. The question of limiting the entry of competition in the railroad industry was largely a moot one. The rights of the railroads under regulation and the rights of the users of rail transportation had long ago been written, and had been meticulously interpreted by the Commission and the courts in a formidable body of administrative and judicial decisions.

On the other hand, the cloak of regulation thrown over the competing carriers as they entered the national transportation picture was of entirely different cut. Restrictive to some degree, it was also significantly protective. Secretary Sawyer pointed out that his report did not include "any major discussion of Federal promotional activity for railroad transportation," due to the fact that the activity of the Federal Government, insofar as railroads are concerned, is principally regulatory.[29]

At first glance there would seem to be merit to the contention, for, 15 years after the entry of the regulated motor carrier into the competitive field, and 10 years after the initiation of regulated water carriers, the railroads carry almost two-thirds of the total freight ton-mileage of the Nation. They are by far the predominant carrier group in the national transportation supply. It must be noted, however, that the railroads are the only carriers who are equipped to transport given bulk commodities between given destinations. In these traffic and commodity areas, then, the railroads are admittedly monopolistic in character. But, just as there are areas of commodities which competing carriers cannot or will not carry, there are vast commodity areas where keen competition exists between the railroads and their competition. Significantly, the railroads find little fault with the burden of regulation in those areas where they retain the character of monopoly. This is understandable, for in these areas the theory in which the regulation was conceived and administered is applicable to the facts of operation. Where the railroad is forced by competition to fight for a fair share of the traffic, that is, in a competitive area, it must contend against competing carriers under protective regulation, while the railroad itself, in the eyes of the regulatory authorities, is in the nature of a monopoly. The absurdity of such a situation is evident; the tragic consequence has been, and is, a serious crippling of the railroads and, therefore, of the national transportation system.

The problem of correcting the situation is not solved easily. In specific instances, where the regulatory legislation is in contravention of the principle of impartial regulation, correction can and should be made promptly. These corrections will be recommended in detail in succeeding paragraphs. A large measure of correction, however,

[29] Issues Involved in a Unified and Coordinated Federal Program for Transportation op. cit., p. 8.

must be accomplished through a consistent and conscious effort on the part of the Commission and the judiciary to apply regulatory sanctions impartially on carriers in competition. It is admitted that administrative and judicial precedent are not lightly overturned, and it is entirely likely that legislative action may be necessary from time to time, but every effort must be made to afford fair and impartial regulation to all competing carriers under the act. It is high time to rid our regulatory thinking of this underlying threat of monopoly which is no longer substantive.

So far as prospective legislation is concerned, and aside from the specific suggestions which will be discussed in subsequent paragraphs, uniformity in regulation, and impartiality of regulation among competing carriers in their areas of competition is a principle which should be followed consistently. Departures from this practice should be countenanced only on the most urgent of reasons, such as the immediate necessities of the national defense. As Secretary Sawyer stated, "Federal transportation policy must give major attention to sound and healthy railroads as a part of the transportation system." [30]

III. Need for Change in Specific Regulations

A. LONG-SHORT-HAUL CLAUSE

The long-and-short-haul clause[31] was part of the original regulatory law enacted for the protection of shippers against discriminatory rates and services. Initially enacted to apply only to railroads, it later was amended to include water carriers, but is not applicable to motor carriers. The section reads in part as follows:

> It shall be unlawful for any common carrier * * * "[by rail or water]" * * * to charge or receive any greater compensation in the aggregate for the transportation of passengers, or of like kind of property, for a shorter than for a longer distance over the same line or route in the same direction, the shorter being included within the longer distance, or to charge any greater compensation as a through rate than the aggregate of the intermediate rates. * * *[32]

The section also includes a proviso permitting limited relief from these prohibitions by the Commission upon application by a carrier adversely affected, and after investigation of the circumstances by the Commission.

The long-and-short-haul clause was enacted for the protection of the immediate user (primarily, the intermediate shipper) against rate discrimination. With the development of strong motor carrier competition, the provision now serves to deny to the railroads the flexibility of rate structure necessary to meet competitive situations. The relief afforded by the escape proviso of the section is seriously inadequate. The procedural and administrative delays of proceedings before the Commission are a matter of record, and will be mentioned further in the discussion of the related subject of rate-making, later in this report.

Two courses of action are possible to insure fair and impartial regulation of the rail and water carriers and their competitors with respect to through and intermediate rates. The first course, obviously, is to extend the operation of the clause to motor carriers. It is doubtful

[30] Ibid.
[31] 49 U. S. C., sec. 4.
[32] Ibid.

that this would accomplish the desired result. The motor carriers, including the common carriers by motor, as will be shown in the part of this report devoted primarily to motor transportation, operate on a substantially dissimilar basis. Specifically in this instance, regulated motor carriers operate predominantly between large industrial centers, rarely picking up or discharging cargo at intermediate points, and hence would be largely unaffected by the extension of the clause.

The alternative to extending the clause to the competing motor carrier is to relieve the rail and water carriers from its operation. There would seem to be no real reason why, in the highly competitive field the national transportation industry has become, the clause should not be stricken from the act. The only argument of substance which logically can be defended is that the railroad monopoly still is a threat to the intermediate shipper. Even in those areas of traffic in which the railroads might be said still to hold a monopoly, there would seem to be little danger of a return to the early abuses. Should such an unlikely situation develop, however, it is entirely probable that competing carriers would move readily into the field. And finally, if competition failed, Congress soon could and would correct any and all abuses which might arise.

B. THE AGRICULTURAL COMMODITIES EXEMPTION

The Motor Carrier Act of 1935, now part II of the Interstate Commerce Act, specifically excluded from regulation, except in matters of safety generally, certain types of motor carriers and other carriers engaged in certain types of transportation.[33] This general escape section exempts, among other carriers, "motor vehicles used in carrying property consisting of ordinary livestock, fish (including shellfish), or agricultural commodities (not including manufactured products thereof), if such motor vehicles are not used in carrying any other property, or passengers, for compensation."[34] The legislative history of this so-called agricultural product exemption tends to show that the provision was written into the Motor Transportation Act for the limited purpose of exempting from general regulation the farm-to-market or wharf-to-market transportation by motor carrier for the farmer or for the fisherman. The clause was suggested as an amendment to the legislation by the House Interstate and Foreign Commerce Committee after lengthy consideration and in the following language:

> motor vehicles used exclusively in carrying livestock or unprocessed agricultural products;[35]

On the floor of the House, the exemption was broadened to include fish and shellfish. The word "unprocessed" was stricken, and the parenthetical phrase "not including manufactured products thereof" was inserted as a modification of the exemption of agricultural commodities, at least partly to assuage the fears of those legislators who questioned whether commodities such as pasteurized milk might be interpreted as processed under the law. The requirement that motor vehicles, to be exempted under this clause, had to be used exclusively for the carriage of livestock or agricultural commodities was elimi-

[33] 49 U. S. C., sec. 303 (b).
[34] 49 U. S. C., sec. 303 (b) (6).
[35] Subcommittee hearings, p. 818.

nated in favor of the condition: "if such motor vehicles are not used in carrying any other property, or passengers, for compensation," a change which must have seemed of little consequence at that time but which was made to avoid restricting the farmers' use of hired vehicles to transport supplies to the farm. Finally, and again by amendment from the floor of the House, the operation of the exemption was made absolute by moving it from under the conditional and discretionary administration of the Interstate Commerce Commission, who, in the absence of this move, might have applied such regulatory measures as it deemed necessary to carry out the national transportation policy.

Subsequent administrative and judicial interpretations have broadened further the scope of the agricultural products exemption. The prohibition in the law which denied exemption to vehicles carrying other property or passengers for hire has been stripped of much significance by the decision in *Interstate Commerce Commission* v. *Parker R. Dunn*,[36] which, in effect, wrote the words "at the same time" into the condition. Further, the admittedly loose language of the commodity descriptions has been stretched to cover a variety of products [37] which hardly would have come under the original adjective "unprocessed."

The net effect of these interpretations has been to apply the exemption not only to the carrier for the farmer and fisherman—for whom it was intended—but also to dealers in, and processors of, agricultural commodities and fish. Further, the broadness of the exemption has encouraged the rise of a vast armada of exempt truckers who successfully avoid all regulation by a combination of the hauling of exempt commodities with the practice of trip leasing.

The operations of exempt carriers by motor are not insignificant. There are approximately 40,000 truckers exempted by this clause on the highways today in comparison to 20,042 motor common carriers subject to regulation. Under the court-broadened exemption, many contract and private carriers are hauling exempt commodities as return loads, to avoid the costly misfortune of returning empty.[38] The chief advantage of exemption from regulation, insofar as these motor carriers are concerned, is the ability to sell their services far below the established rates of common carriers by rail or motor. Further, on return runs even of nonexempt loads, the exempt carrier may, either by trip leasing or by absorbing the mark-down on the exempt run, haul at less than the published tariff.

The effect of these practices on competing common carriers by rail or motor is a serious loss of traffic. Railroads are forbidden to meet lower rates without posting proposed new rates 30 days in advance of the effective date;[39] a requirement which obviously makes it an impossibility to match tariffs with an unregulated carrier. The situation is one which, if allowed to continue, will greatly unbalance the national transportation system. In order to preserve the system and to promote its development, it seems incumbent on Congress to insure that the regulation it has prescribed does not destroy the regulated carriers.

[36] 166 Fed. 2d 116 (1948).
[37] Subcommittee hearings, p. 802.
[38] Ibid., p. 1201.
[39] 49 U. S. C., sec. 15 (2).

Witnesses appearing before the subcommittee for common carriers by rail and motor advocated restrictive modification or repeal of the exemption.[40] Even at the time the act was being considered, there was informed support for the position that the agricultural product exemption was surplusage. The late Joseph B. Eastman,[41] then Federal Coordinator of Transportation, believed that the exemption of farmer owned and operated motor carriers for transportation of farm produce or supplies,[42] coupled with the exemption of casual, occasional, or reciprocal transportation,[43] both included in his proposals [44] would adequately meet the situation. As might be expected, farm and cooperative groups were vehement in their protests against any modification of the exemption.[45] Farmers generally have been, and understandably are, concerned over increased cost of transportation to market, should regulation be applied to that transportation.

It is conceded that any modification of the exemption should safeguard the farm-to-market move. On the other hand, before the Dunn decision,[46] for-hire motor carriers on the farm-to-market runs were regulated generally and that experience indicated no increase in motor rates to rail rate levels. In fact, rail rates on the average dropped to regulated motor-carrier rates. The fears of the farm groups in these respects seem to be largely groundless.

The subcommittee is convinced that the present situation with respect to exempt carriers is intolerable. The effect on the national transportation system, as a whole, is contrary to the best public interest. It is far from clear, however, that the agricultural products exemption could be entirely repealed without doing injury to the farmers and violence to the intent of Congress in enacting the exemption. There is a place in the agricultural transportation picture for an exempt motor carrier for hire who could neither qualify under the farmer-owned [47] or casual and occasional [48] exemptions. It is quite clear from the evidence, however, that the operations of such a carrier should be curtailed sharply, limited to carriage from farm or wharf to the primary market, and restricted from competition in the nonexempt commodity traffic market. Further, the nature of exempt commodities clearly needs careful redefinition. Finally, it seems advisable to reimpose the judgment of the Interstate Commerce Commission as to the extent of the exemption, setting as a standard interference with the effectuation by the Commission of the objective of the national transportation policy.

C. THE BULK COMMODITY EXEMPTION

The section of the act setting forth the applicability of the regulatory authority of the Interstate Commerce Commission [49] also provides for certain exemptions, the most notable of which is known as the "bulk

[40] Subcommittee hearings, pp. 241, 812.
[41] Member, Interstate Commerce Commission, 1919 to 1944.
[42] Cf. 49 U. S. C., sec. 303 (b) (4a).
[43] Cf. 49 U. S. C., sec. 303 (b) (9).
[44] The Report of the Federal Coordinator of Transportation: Regulation of Transportation Agencies (S. Doc. No. 152, 73d Cong., 2d sess.), pp. 18, 19.
[45] Subcommittee hearings, p. 473.
[46] 166 Fed. 2d 116 (1948).
[47] 49 U. S. C., sec. 303 (b) (4a).
[48] 49 U. S. C., sec. 303 (b) (9).
[49] 49 U. S. C., sec. 903.

commodity exemption." The significant language of this exemption reads:

> Nothing in this part shall apply to the transportation by a water carrier of commodities in bulk when the cargo space of the vessel in which such commodities are transported is being used for the carrying of not more than three such commodities.[50]

The bulk commodity exemption, along with others included in the same section, was made a part of the Transportation Act of 1940, primarily at the insistence of shippers and carriers whose interests were dependent upon a maintenance of the traffic of raw materials in bulk on the inland waterways. The Congress, in an effort to prevent what was alleged to be a severe dislocation of existing traffic patterns, agreed to exempt dry-bulk commodities, as well as liquid bulk freight (principally petroleum), exempted under another paragraph of the same section.[51] The rail common carrier has not been affected materially by the liquid bulk exemption, although it has undoubtedly unbalanced the barge-pipeline competitive picture. This discussion will concern itself primarily with the dry-bulk commodity exemption, reserving the liquid bulk question for later pages.

Dry-bulk commodities include such products as coal and coke, grain, ore, sand, gravel, and sulfur. Tonnagewise, exempt dry-bulk commodities comprised over half the total carried on the Mississippi and its tributaries by class A and class B water carriers.[52] Obviously, the three-commodity limitation contained in the section reduces the amount of exempt commodities which are carried free of regulation. The integrated tows of the common carriers by water, for example, are usually completely under regulation, even though a major part of the load may be of the so-called exempt commodities. But the effect of the exemption is not unsubstantial, and, since the end of World War II, when the demand for barge facilities outstripped the available supply, it has tended to become more keenly felt by the railroads and by regulated water carriers. The familiar pattern of competition between regulated and unregulated carriers has commenced to become increasingly wider. The published rates of the common carriers by rail or water are an easy mark for the unregulated water carrier, and more and more dry-bulk traffic is moving by unregulated barges.[53]

Representatives of unregulated water carriers have sought to minimize the effect of their competition on the rails, pointing to the relatively low percentage of total tonnage handled by all water carriers.[54] One witness urged that all regulation of water carriers on the inland waterways system be withdrawn.[55]

The subcommittee believes that proper competition is a stimulus to transportation development. It knows, however, that improper competition can only force the adoption of noncompensatory rates by these carriers who, under regulation, must carry less remunerative traffic along with the more profitable bulk freight. The question of compensatory water-carrier rates is significant in this entire problem. In essence, however, the question is one of giving the shipper the benefit of the most economic carriage, with full consideration of the

[50] 49 U. S. C., sec. 903 (b).
[51] 49 U. S. C., sec. 903 (d).
[52] Subcommittee hearings, pp. 244, 1295.
[53] Ibid., p. 242.
[54] Ibid., p. 1276.
[55] Ibid., p. 1304.

true cost picture, and at the same time affording the common carrier the protection necessary for his continued existence. The competition of the unregulated water carrier of bulk commodities, exempted by section 303 (b) of the act, has resulted in lower rates for a few of the large shippers on the inland waterways. Also, it has resulted in increased rates to shippers on the waterways, who, because of size or type of shipment, must rely on the regulated common carrier by water. It has resulted in increased rates to shippers across the Nation who cannot take advantage of these lower rates due to location. It has resulted in financial disadvantage to competing common carriers by rail and water, with a consequent weakening of the national transportation system. Finally, as will be shown later, it has achieved its lower rate advantages at least partially through the expenditure by the Federal Government of revenues raised from ordinary taxpayers, competing shippers, and competing carriers themselves. The only justification for the situation is the aim of strengthening the national transportation system. When the net effect of this exemption tends, as has been shown, to weaken the system as a whole, disrupting the economic flow of traffic, then corrective measures are indicated.

Even assuming for argument alone that the competition of bulk-commodity carriers by water is inconsequential, it tends definitely to be unfair and destructive, and is, therefore, directly contrary to the objective expressed in the national transportation policy.[56]

D. CONTRACT CARRIER BY MOTOR

The Motor Carrier Act of 1935 [57] took cognizance of a new type of motor carrier, the contract carrier, which had its beginning shortly after World War I. Congress defined the contract carrier as any person (except a common carrier or express company, previously defined in the act) who, under individual contracts or agreements, engaged in the transportation by motor vehicle of passengers or property in interstate commerce for compensation.[58]

The contract carrier evolved to fill the needs of the shipper who could not or preferred not to provide his own carriers, and yet needed a more specialized transportation service than that supplied by motor or rail common carriers. The contract carrier therefore was initially a substitute for the private carrier. Early contracts were written on a relatively long term, individual basis, amounting in essence to a virtual dedication of the carrier to the needs of a single shipper, or possibly of a group of closely related shippers. On this background of specialized service to the individual shipper or group of shippers the contract carrier provisions of the Motor Carrier Act were written.

Most contract carriers have continued to operate substantially in the same pattern. These contract carriers would agree with the almost undisputed premise that contract carriage is purely a substitute for private carriage. However, there is a disturbing proportion of so-called contract carriers who are, in effect, operating as substitutes for common carriage, by rail or by motor. This, of course, is the point of contention between the common carriers by rail and motor, on the one hand, and the contract carriers by motor, on the other.

[56] 49 U. S. C. Notes preceding secs. 1, 301, 901, and 1001.
[57] 49 Stat. L. 543; 49 U. S. C. 301-327.
[58] 49 U. S. C., sec. 303 (a) (15).

Congress provided for regulation of contract carriers principally on entry into the transportation field, by requiring that the carrier apply to the Commission for a permit to operate.[59] The Commission, having first found that the applying carrier is qualified, and that the operation proposed to be carried on is consistent with the public interest and the national transportation policy, is required to issue a permit to the applicant. The permit is required by law to contain, among other information, the business of the carrier and the scope of it.

Congress further required, as a part of the Transportation Act of 1940, amending the Interstate Commerce Act, that minimum rates filed by contract carriers by motor be those rates actually maintained and charged.[60] This amendment was added to meet the difficulties faced by common carriers by rail or motor in meeting the competition of contract carriers. These minimum rates are available for inspection by interested parties,[61] and may be protested to the Commission by those parties if believed to be in contravention of the national transportation policy.[62]

Further regulatory sanctions imposed on contract carriers by the Motor Carrier Act include the familiar provisions dealing with safety and uniform accounting systems.[63]

On the basis of these regulatory measures, as interpreted, administered, and applied by the Commission, representatives of the contract carriers insisted before this subcommittee that they were under more vigilant and restrictive regulation than their competitors.[64] On the other hand, the common carriers' representatives pointed out that the expansion of the contract carrier into the common carrier field has not been and cannot be limited under the sort of regulation being applied by the Commission at the present time.[65]

In the first place, the common carriers contend that the restrictions on entry into the field have been far from adequate to limit the contract carrier to anything approximating his original scope of operations. Examples cited show that some contract carriers have instead become competitors of and substitutes for common carriers, rather than for private carriers.[66] Testimony introduced at the hearings from reports of the ICC indicate that contract carriers have, to a considerable extent, adopted the practice of shopping around freely among shippers. The Commission has had before it numerous cases in which it has sought to determine whether such practices have actually operated to convert "contract" carriers by motor vehicle into "common" carrier status. In the *Craig Contract Carrier Application*,[67] the Commission held that the applicant was engaged in common-carrier operations because, among other considerations, the carrier had, at the time of the hearings, contracts with 18 shippers engaged in various lines of business. In a second case,[68] it was held that certain contract carriers had unlawfully converted their operations to those of a common carier by serving an unlimited number of cus-

[59] 49 U. S. C., sec. 309.
[60] 49 U. S. C., sec. 318.
[61] Ibid.
[62] Ibid.
[63] 49 U. S. C., sec. 304.
[64] Subcommittee hearings, p. 908.
[65] Ibid., p. 1202.
[66] Ibid.
[67] *24 MCC 831, 28 MCC 629, 31 MCC 705*, subcommittee hearings, p. 255.
[68] *Transportation Activities of Midwest Transfer Company et al., No. MCC C-907*, mimeographed report of June 13, 1949, subcommittee hearings, p. 255.

tomers. This competition, in and of itself, would not be overly prejudicial to the common carrier, although the contract carrier would have the distinct advantage of limitation to move remunerative traffic, and the right or duty to refuse traffic.

The nondisclosure of contract carrier rates, particularly when coupled with the broad expansion of operations by contract carriers, has resulted in placing the common carrier by rail or motor at a distinct disadvantage. The amendment of section 218 (a), earlier discussed,[69] is not a complete answer, although the contract carriers insist that it is. As the common carriers point out, the contract carrier may include within those minimum charges posted a variety of services for which the common carrier must be compensated, and for which he must establish tariffs. The rigidly regulated common carriers cannot compete with the flexibility of the rate and service structure of the contract carrier.

This subcommittee believes the contract carrier has gone far beyond the scope intended when Congress enacted the law applicable to him. Continued expansion of operations, along the pattern now evident, will seriously damage the common carriers and the national transportation system. We urge that Congress take appropriate steps to restrict the scope of operations of contract carriers to that of substitution for private carriage, and that contracts between shippers and contract carriers be subjected to public regulation.

E. PRIVATE CARRIERS BY MOTOR

The same difficulties which have plagued common carriers by motor and rail in competition with contract and exempt motor carriers arise in those situations which involve the private motor carrier. The Coordinator of Transportation, in 1935, expressed no fear of the expansion of private carriage into the for-hire industry and made no recommendation for their inclusion.

In the space of 5 years, however, it became clear that corrective steps would have to be taken. Consequently, in 1940, section 203 (a) (17) was added to the act, defining a private carrier in the following language:

> SEC. 203. (a) (17) * * * the term "private carrier of property by motor vehicle" means any person not included in the terms "common carrier by motor vehicle" or "contract carrier by motor vehicle," who or which transports in interstate or foreign commerce by motor vehicle property of which such person is the owner, lessee, or bailee, when such transportation is for the purpose of sale, lease, rent, or bailment, or in furtherance of any commercial enterprise.

The optimism of the Coordinator in 1935 has certainly not been justified by experience. The tendency of regulation has again been to drive more and more traffic into unregulated carriage.[70] The Commission advised the committee that there is substantial and growing private transportation over our highways, apart from transportation conducted directly by farmers.[71]

Proceedings before the ICC indicate that transportation thus brought into question varies between in-bound to plant, out-bound to customers, or both. In one instance, a textile mill was shown to be

[69] 49 U. S. C., sec. 318. See p. 17, supra.
[70] Subcommittee hearings, p. 1208.
[71] Letter of May 18, 1949, to Chairman Edwin C. Johnson, Senate Interstate and Foreign Commerce Committee, re agricultural exemptions, from ICC.

using 230 equipment units today as compared with 21 in 1937. Successive increases in rail and motor rates have of course been factors in the increase in the operation of motor vehicles by manufacturers and distributors. One of the arguments to the Commission in *Ex Parte No. 168, 1948*, stressed the point that a further increase in rail rates would lead to additions in the present private motor fleets.

The Commission has been governed, in determining whether carriage is private in nature, by two standards, In the definitions of common and contract carriers there appears the phrase "for compensation." [72] This phrase is significantly absent from the definition of private carrier. Secondly, the definition of private carrier includes the phrase "in furtherance of any commercial enterprise." [73] These words have given rise to what has come to be known as the "primary business test." They have also given rise to considerable confusion.

Obviously, no services can be performed for nothing. Equally obviously, all commercial transportation is in furtherance of some commercial enterprise. The Commission reexamined these standards in 1943 [74] and came to the sound conclusion that neither of the tests was exclusive. Consideration obviously needs to be given to both factors.[75]

The difficulty is, of course, that operations may be both types of carriage. According to the circumstances of individual cases, a division of the Commission has found certain operations to be private carriage and extensions of those operations to be "for-hire." In one instance, it was found that a trucking subsidiary which was also the parent company of several companies engaged in distilling or related operations, was a contract carrier in serving other subsidiaries of the parent company. Almost all shippers by private carriers consider transportation incidental to their primary business. Yet when the vehicles of these private carriers are unloaded at their destination and no return loads are available, the vehicle is "leased" for a return load, and this service is performed for compensation.[76]

The subcommittee recognizes the right of shippers to operate their own vehicles, subject to reasonable requirements as to safety and limitations of the size and weight. We also recognize the fact that when the established rates of common carriers exceed the costs of private transportation, extension of private carriage is inevitable. Neither are we ignorant of the fact that private carriers render special services not available from common carriers.

However, the record is clear that private carriers have engaged and are increasingly engaging in direct competition with regulated carriers. Their freedom from published tariffs and accounting to the Commission, together with the fact that the private carrier looks on return loads as purely extra compensation, has led to serious rate cutting. The effect on common carriers, particularly common motor carriers, is extremely damaging.

There is some evidence that the Commission is unable to cope with the situation because the law itself is insufficiently definitive.[77] On

[72] Sec. 203 (a) (14) and (15), Interstate Commerce Act.
[73] Sec. 203 (a) (17), Interstate Commerce Act.
[74] *L. A. Woitishek Common Carrier Application, 42 M. C. C. 193*, decided May 6, 1943. Subcommittee hearings, p. 1532.
[75] Commission brief in *I. C. C.* v. *Jamestown Sterling Corp.* (1945), 64 Fed. Supp. 121. Subcommittee hearings, p. 1200.
[76] Subcommittee hearings, p. 1200
[77] Ibid., p. 1504.

the other hand, it is clear that the major abuses complained of will be corrected by proper attention on the part of Congress and the Commission to commodity exemptions and leasing practices. We suggest that consideration be given to drawing a sharper definition, and that, in any event, remedial steps be taken in the leasing and exemption fields. Primarily, Congress must insure that private carriers which invade the fields of contract or common carriers be regulated in strict accordance with the true nature of their operations.

F. TRIP LEASING

The practice of leasing vehicles antedates by several years the Motor Carrier Act of 1935. Such transactions may be between motor carriers and persons who own and operate trucks but do not possess interstate operating rights to transport traffic for compensation in their own name, between motor carriers with interstate authorizations, or between such carriers and exempt for-hire or private carriers. When trucks are leased by owner-operators or carriers for a single trip only, the arrangement is known as trip leasing, and it is with this aspect that we are primarily concerned. Some motor carriers operate entirely with leased equipment while others operate with varying proportions of leased equipment. There are many operators, especially among class II and III carriers, which do not lease any equipment.

There is some question as to the constitutionality of any regulation of leasing. In 1916 the Commission entered an order against the Pennsylvania Railroad, requiring them to purchase some tank cars which they had been leasing. The ICC went to the Supreme Court,[78] which said it was the carrier's prerogative to obtain equipment in any way he chose.

There is little doubt that a large number of motor common carriers are largely dependent upon the practice of trip leasing, and that the continuation of that practice is essential to the present method of operation in a significant segment of the industry.[79] For example, traffic into Florida is largely of a character subject to regulation, while there is relatively little out-bound traffic of this nature. If regulated carriers were required to supply equipment owned by them to carry freight into Florida, they would be forced to increase their present fleets enormously. These operators have turned to trip leasing to get their cargoes into the State. Contracts are made generally with carriers who have agricultural commodities, usually fruit, on the return, or north-bound, leg of the trip, and are therefore not subject to regulation. It would seriously and adversely affect leasing carriers if leasing were forbidden by law.[80]

The objections to the practice of trip-leasing hinge primarily on cutting of rates and shocking safety records. It would be misleading to generalize too broadly with respect to owner-operators who lease their equipment, but all too often their operations are characterized by irresponsibility. The subcommittee hearings contain significant evidence of intolerable highway carelessness.[81] Further, by use of

[78] *U. S.* v. *Pa. R. R. Co.* (242 U. S. 208), subcommittee hearings, p. 1517.
[79] Subcommittee hearings, p. 1512.
[80] Ibid.
[81] Ibid., pp. 1513–1514.

leased owner-operated vehicles, trucking companies are able to reduce costs substantially and therefore can and do cut rates below compensatory levels. In the judgment of the subcommittee the public interest, both from the standpoint of highway safety and the health of the industry, is being adversely affected.

The responsible Commissioner stated at the subcommittee hearings [82] that whatever undesirable results flow from the use of leases, "the large number of trucks available for trip leasing constituted a pool of vehicles available to carriers to meet peak demands and to avoid empty return movements when traffic is unbalanced; that many shippers fear that their service will suffer, or their charges will increase if this pool of vehicles becomes unavailable to carriers, and that an order requiring all motor carriers to own their vehicles would cause an enormous increase in investment on the part of many carriers." He stated that "the disadvantages of such major readjustment at this time must be balanced by the Commission against the undesirable features connected with leasing of equipment in the light of the evidence and of the arguments presented by the parties." [83]

The legislative history of the act appears to refute the concept of regulation as stated above. The Coordinator expressed emphatically that the purpose of regulation, in addition to preventing an oversupply of transportation, was to protect common carriers supposed to serve the public generally;[84] to strengthen the position of the common carrier;[85] to require insurance of carriers by motor; and to make them responsible for injury and damage.[86]

Further, since 1935 the record is void of any responsible evidence that certificates or permits could or would be used to create a "pool of vehicles" or that holders would use such "pool."

On the other hand, if legislation were enacted to the extent that no merchandise could move except in the carriers' own equipment the solution might be intolerable to the trucking industry.

In 1941, when unrestrained truck leasing had become so widespread that the carriers themselves sought a solution to the problem, a study was begun by the ICC regarding leasing practices and a report was made in 1943. In 1947 the question was again revived. Leasing practices had become more prevalent during the war when the Office of Defense Transportation required maximum utilization of transportation facilities. The necessity for regulation became more apparent, and tentative rules were drafted by the Commission for presentation to the carriers for criticism.

In January 1948, formal proceedings were instituted, *Ex Parte MC–43*. The ICC conducted an informal investigation throughout the country and reports from the field staff of the Motor Carrier Bureau (ICC) listed specific instances where the leasing practice was being abused. This list enumerated abuses of 77 different types, and classified the practices as resulting in, among others:

(1) Unauthorized extension of operations;

(2) Operations by unauthorized carriers;

(3) Unfair competition by leasing carriers with those not engaged in leasing;

[82] Ibid., p. 1510.
[83] Ibid., pp. 1510-1511.
[84] Senate hearings on S. 1629, op. cit., p. 69.
[85] Ibid., p. 61.
[86] Ibid., p. 79.

(4) Failure of carriers to require drivers of leased vehicles to observe the regulations pertaining to hours of service;

(5) Uncertainty as to parties responsible in cases of accidents involving leased vehicles;

(6) Lack of control by lessees over operation of leased vehicles.[87]

Hearings were opened in October 1948, and continued until January 1949. These hearings developed little industry opposition to leasing of equipment among motor carriers, but there was substantial argument that rules should be adopted controlling the practice. The Common Carrier Conference favored uniform regulations applicable to all carriers, saying that no segment of the motor carriers should receive preferential treatment.[88]

In the fall of 1949, the Motor Carrier Division set forth 17 basic proposals which were to govern leasing practices. On June 26, 1950, the Commission set forth five proposals as a result of evidence presented. On October 31, 1950, arguments were presented to the Commission regarding various leasing proposals. It is hoped that the Commission soon will issue regulations governing leasing operations.

The subcommittee believes the argument that regulation of leasing is outside the jurisdiction of the Congress to be without substance. While the Congress may very well not forbid leasing, we are convinced that regulation of the practice of leasing and hiring motor vehicles, at least by common carriers, is not only well within the authority of Congress but is desirable and necessary in the public interest. We are inclined to believe further that the Commission is not without present authority to cope with the vast majority of the problems arising under the practice. Should it develop, however, that additional authority is required, we recommend that, in the interest of impartial regulation among competing motor carriers, sufficient authority to accomplish that end be delegated by the Congress to the Commission.

G. DORMANT WATER CARRIER OPERATING AUTHORITIES

It has been estimated that, of the 337 water-carrier certificates now outstanding, only 252 are still being used. A total of 85 authorities are dormant, and have been so for several years.[89] The existence of outstanding but dormant certificates greatly intensifies the difficulty in determining to what extent new authorities should be granted. Surplusage of transportation facilities, with concomitant destructive competitive practices, long has been recognized as a danger to the well-being of the industry.

There is no revocation authority in part III of the Interstate Commerce Act such as is found in part II [90] and part IV.[91] The Supreme Court has stated flatly that the Interstate Commerce Commission is without authority to revoke certificates or permits in whole or in part.[92] Once certificates have become effective, and after the time for rehearing has expired, the Commission may take no further action with regard to operating rights.

[87] Bureau Motor Carrier brief, *Ex Parte MC-43*, p. 10.
[88] Subcommittee hearings, pp. 857, 865, 868, 869, 1199, 1205, and 1210.
[89] Sixty-third Annual Report of ICC, 1949, p. 53.
[90] Id., pp. 53–54; sec. 212 (a) of pt. II and sec. 410 (f) of pt. IV, Interstate Commerce Act.
[91] Ibid.
[92] *U. S.* v. *Seatrain Lines, Inc.*, 329 U. S. 424 (1947); ICC Sixty-first Annual Report, p. 84

Obviously, water carriers must have reasonable protection against loss of operating rights where abnormal conditions or other extenuating circumstances have hindered resumption or continuance of operations. However, it certainly is not in the public interest to permit dormant operating authorities to remain outstanding indefinitely. The subcommittee is of the opinion that the ICC should be given authority to revoke dormant certificates in the absence of special circumstances.

H. EXEMPTION OF CONTRACT CARRIERS BY WATER

Section 303 (e) of the Interstate Commerce Act directs the Interstate Commerce Commission to exempt from regulation contract carriers found not to be "actually and substantially competitive" with motor or rail carriers. This exemption has given rise to a situation within the water-carrier industry similar to that in the motor-carrier industry.[93] The principle is, of course, the same in any competition between common carriers and unregulated carriers, regardless of the type of transportation. In the water-carrier industry, the contract carrier does not seem to have caused as much concern to the common carrier as his counterpart in the motor industry. This is probably because the contract carrier by water is more greatly limited geographically than is the motor carrier, and is closer to the original concept of the contract carrier for hire.[94]

In any event, the competitive advantage afforded the contract carrier over the common carrier is a material one. A representative of water carriers suggested before this subcommittee that "a statutory requirement for the filing of actual rates by contract carriers would do much to stabilize the domestic water carrier industry." [95] This subcommittee is inclined to agree.

There would seem to be no real reason why identical treatment should not be accorded contract carriers by motor and water. The competitive status within their respective industries is quite similar, and the problem arising from it differs only in degree of effect on competitors.

It seems obvious that contract carriers by water should be required to file current contracts with the Commission, and that such contracts should not only be open to inspection by parties with a valid interest but should be subjected to regulation as we have recommended in connection with contract carriers by motor vehicle.[96] Further, we suggest that the Commission survey certificates under which contract carriers are operating to insure that the operation is within the proper scope.

I. THE NECESSITY OF SETTING RAIL RATES WITH A VIEW TO THEIR EFFECT ON COMPETING WATER CARRIERS

When Congress brought under regulation the carriers on the inland waterways,[97] it provided a degree of protection from railroad rate competition which it feared might become destructive to the industry. In order to insure that the barge lines might not be damaged by alleged

[93] Supra, pp. 17 et. seq.
[94] Supra, p. 17.
[95] Subcommittee hearings, p. 1376.
[96] Supra, p. 19.
[97] 54 Stat. L. 929; September 18, 1940.

contravention of the national transportation policy, the following language was written into law:

> Differences in the classifications, rates, fares, charges, rules, regulations, and practices of a water carrier in respect of water transportation from those in effect by a rail carrier with respect to rail transportation shall not be deemed to constitute unjust discrimination, prejudice, or disadvantage, or an unfair or destructive competitive practice, within the meaning of any provision of this act.[98]

On the other hand, competing rail rates, even though found by the Commission to be compensatory, have been disallowed by the Commission on the grounds that the national transportation policy provision relating to sound economic conditions among the several carriers would be contravened. The railroads, of course, are not protected by a provision similar to that quoted above, and the Commission would seem to be justified in regarding the omission of any similar section as evidence of congressional intent that the caveat of the declaration of policy should be diligently enforced against carriers in competition with water carriers. Competitive rates which are compensatory could hardly fall within the category of unfair and destructive competition against which the national transportation policy warns. Further, compensatory rates in no wise can be said to reflect anything but an economic use of the carrier, which certainly is consistent with the policy's declaration—that the inherent advantage of each mode of carrier is to be preserved. Therefore, to force traffic by regulation into less economic channels is distinctly contrary to the declaration of the national transportation policy, and, in the judgment of this subcommittee, should not be condoned except for the most urgent of reasons. In the absence of positive showing of destructive damage to the water-carrier segment of the national transportation system, compensatory rates should be allowed.

J. COMMODITY CLAUSE

The so-called commodity clause[99] was inserted in the Interstate Commerce Act in 1906, when the railroad still held a virtual monopoly of the transportation industry. The pertinent section reads in part:

> * * * it shall be unlawful for any railroad company to transport * * * (in interstate commerce) * * * any article or commodity, other than timber and the manufactured products thereof, manufactured, mined, or produced by it, or under its authority, or which it may own in whole or in part or in which it may have any interest, direct or indirect * * *.[1]

The Supreme Court states the purpose of this clause as being "to put an end to the injustice to the shipping public, which experience had shown to result from discriminations of various kinds, which inevitably grew up where a railroad company occupied the inconsistent positions of carrier and shipper." [2] There is no such prohibition placed on the operations of motor carriers or water carriers.

Nevertheless, there seems ample justification for extending to all carriers the prohibition against engaging in speculative commodity buying and selling. It is a salutary principle that the business of the regulated carrier be limited to the supply of transportation service. While there is no evidence indicating any substantial abuse, the

[98] 49 U. S. C., sec. 905 (c).
[99] 49 U. S. C., sec. 1 (8).
[1] Ibid.
[2] *U. S.* v. *Reading Co.*, 253 U. S. 26, 60–61.

best interests of the shippers and of the transportation system would seem to be served by an extension of the section to all carriers under regulation.

Further, this section serves as concrete evidence of the difference in attitude of regulation of the railroads on the one hand, and of the competing carrier on the other. If for no other reason than to insure the fair and impartial regulation required by the national transportation policy, this prohibitive regulation should be made uniformly applicable to competing carriers.

K. SUMMARY: IMPARTIAL REGULATION

It is apparent that there must be fair and impartial regulation if the Nation is to enjoy a healthy transportation system. Further, there would seem no doubt that the fairness and impartiality of regulation must extend to regulation between competing modes of transportation, as well as to that between competing carriers of the same general type. The actuality of inequitable regulation between competing modes of transportation, even in a specific competitive area, is a positive and immediate threat to the well-being of the national transportation industry as a whole.

There are two principles which should be followed zealously by the framers of regulatory law and those called upon to interpret and administer it. The first, amply documented by the regulatory difficulties being undergone by the common carriers in general and the railroads in particular, is that competing carriers, in any given competitive area must be subjected to or exempted from restrictive regulation with complete impartiality and uniformity. Exceptions to this rule should be made only in the clearly demonstrated interests of the national defense or of the welfare of the national transportation system as a whole.

The second principle which needs articulation through regulation is that which may be called the minimum rule. That is, as stated by a student of transportation before this subcommittee,[3] "Each type of transportation should be regulated to the fullest extent required by the public interest and no more."

It may be argued that there is a measure of seeming inconsistency between these principles. For example, the extension of regulatory measures to unregulated competitors of a regulated carrier might seem to run counter to the proposition that the best regulation is the least regulation. In fact, however, these rules are not inconsistent, but require a clearer understanding on the part of the Congress and the Commission of the nature of the public interest in the national transportation system. It is shortsighted to assume that the public interest is entirely a matter of immediate rates and services. It is far more important that the system as a whole be maintained in a sound economy, and to encourage their development along progressive lines than it is to promote or protect segments of the industry. The sum of all the aggregate interests of the public in our transportation industry far outweighs the interest of any component of the public.

Primarily, the chief administrative and legislative difficulties in our regulatory laws stem from their inflexibility. Differing competitive situations, either on a regional basis or commoditywise, require changes

[3] Subcommittee hearings, p. 1173.

in approach and in application of the law. Flexibility of administration admittedly requires greater discretionary authority in the hands of the Interstate Commerce Commission and, at the same time, greater latitude in the exercise of managerial function by the management of the carrier. Proper standards for the guidance of the Commission must of course be established, and it, in turn, must issue proper regulations for the protection of the immediate and long-term public interest. A healthy and competitive transportation industry demands a degree of freedom of action if it is to grow and develop in step with other industries of the nation dependent on it. Administrative difficulty should not be a controlling factor when the national welfare is affected so directly.

IV. Federal Aids to Domestic Land and Water Transportation

Subsidy is a government grant to assist a private enterprise deemed advantageous to the public.[4] Subsidy, as discussed under Senate Resolution 50, however, is the contribution of Federal, State, and local governments to such items as highways and waterways, both of which benefit the public as well as private interest. The current investigation being conducted under Senate Resolution 50 specifies that a full and complete study shall be made of such problems as may be deemed proper relating to—

* * * the effect of large expenditures of public moneys and private capital upon transportation charges and to what extent such expenditures are reflected in costs of production and prices to consumers; * * *.

In recent years transportation subsidies have been a source of increasing concern. Growing interest has been focused on the fact that subsidy imposes a burden upon the general taxpayer and governmental budgets. This opinion was expressed in the Presidential message which accompanied the Federal Budget for the fiscal year 1951:

The long-term interest of the general taxpayer, as well as the users of transportation, will best be served by the development of a balanced transportation system, substantially independent of government support.[5]

In some cases, of course, defense considerations or the need to foster some particular development may temporarily justify furnishing facilities at Government expense. Sometimes only partial user support of public facilities is possible because of the need to promote objectives otherwise unattainable, such as a productive use of resources. It might be desirable, however, for the Government to recapture an important part, and in some cases all, of its expenditures, if, for example, facilities are provided for the benefit of transportation companies, though they in turn supply services for the using public.

In a report to the President from the Secretary of Commerce, the following observations were made in this respect:

* * * Careful study should be made of the areas in which user charges are not now in effect. In those areas such as roads in which user charges already apply, it is desirable to determine whether such type of user is paying its fair share * * *. The imposition of charges, moreover, could provide concrete evidence of the actual value of the various aids which were being supplied. Failure of the users to utilize facilities for which some charge was made would suggest that such facilities are not economically justified * * *.[6]

[4] Webster's Collegiate Dictionary, fifth edition, G. & C. Merriam Co.
[5] Presidential Message to Congress, p. M68, January 3, 1950.
[6] Issues Involved in a Unified and Coordinated Federal Program for Transportation, op. cit., p. 24.

Another important point is the extent to which subsidized transportation distorts sound economic relationship between competing forms of transportation. The railroads contend that the big "highway freighters" fail by a large margin to meet their cost responsibilities and that this situation confronts the railroads with subsidized competition detrimental not only to the rail carriers but to the real interest of the industry as a whole.[7] With respect to transport subsidies, the task force of the Hoover Commission reached the following conclusions:

> If the potential contributions of the private enterprise system are to be realized, available traffic must be allocated among the competing forms of transportation in accordance with economic standards of price and service competition. Where a portion of the transportation plant is supplied initially by Government, workable competition can be maintained only if the cost of providing and maintaining such facilities is charged against the direct users rather than against the general taxpayer.

A. AID TO INLAND WATERWAYS

The United States now has over 28,500 miles of improved inland waterways. The Mississippi River system comprises 12,073 miles, or almost half the total. The length and depth of our improved inland waterways system is shown in the following table:

Inland waterways: Length and depth

	Under 6 feet	6 feet and under 9 feet	9 feet and under 12 feet	12 feet and over	Total mileage
Mississippi River system:					
Mississippi River (SOO Railway bridge, Minneapolis to the Gulf)	.....	.....	1,586	226	1,812
Illinois River and waterway	.....	.....	327	.....	327
Missouri River (Fort Benton to mouth)	1,474	767	.....	.....	2,241
Ohio River	.....	.....	981	.....	981
Monongahela River, Pa. and W. Va.	.....	37	91	.....	128
Allegheny River, Pa	153	.....	72	.....	225
All other tributaries of Mississippi	3,741	1,864	754	.....	6,359
Total, Mississippi River system	5,368	2,668	3,811	226	12,073
Atlantic coast rivers	2,479	1,026	539	1,799	5,834
Gulf coast rivers	2,729	610	637	24	4,000
Intracoastal waterways	78	660	163	2,065	2,966
St. Lawrence River to Canadian boundary	.....	.....	.....	62	62
Pacific coast rivers	803	256	97	222	1,378
All other waterways (miscellaneous)	260	539	.....	.....	799
Total (excluding Great Lakes)	11,708	5,759	5,247	4,398	27,112
Great Lakes and connecting channels	.....	.....	.....	1,479	1,479
Grand total	11,708	5,759	5,247	5,877	28,591

Source: Reports of Chief of Engineers, U. S. Army; Subcommittee hearings, p. 198.

The volume of intercity freight traffic carried on inland rivers and canals has increased steadily and very consistently ever since 1925. The 8.4 billion ton-miles carried on inland rivers and canals in 1925 increased to 13.4 billion ton-miles in 1935; 22.4 billion ton-miles in 1940, 29.7 billion ton-miles in 1945, and 43.1 billion ton-miles in 1948.[8] Except for the war period, the percentage of intercity freight traffic carried on rivers and canals also has increased. While the railroads' share of total traffic decreased from 68.8 percent in 1946 to

[7] Public Affairs Bulletin No. 86, Library of Congress, August 1950, p. 22.
[8] See table, Intercity freight traffic handled by railroads, Great Lakes and rivers and canals, subcommittee hearings, p. 198.

61.5 percent in 1949, the percentage handled by inland water carriers increased from 3.2 to 4.6 percent.[9]

Of the 169,000,000 tons of domestic traffic which moved on inland waterways (excluding the Great Lakes) in 1948, 79 percent consisted of three bulk commodities: Petroleum; coal and coke; and sand, gravel, and stone.[10] A large part of this traffic was handled by carriers exempt from regulation under part III of the Interstate Commerce Act. Figures compiled by the Army Corps of Engineers indicate that of 9,094 vessels and barges operating principally on the Gulf-Intracoastal and Mississippi River systems, 79 percent were exempt, 17.6 percent were regulated common carriers, and 3.4 percent were contract carriers. Table 32, at the end of this part, shows the ton-miles of freight carried on various river systems from 1920 to 1949.

According to the president of American Waterways Operators (a trade association including common, contract, and private carriers by water), "domestic water transportation presently is in a generally prosperous and sound financial condition * * *."[11] He also testified that "there are no receiverships in the entire barge and towing vessel industry."[12]

Expenditures by the Federal Government to improve inland waterways properly may be called subsidies because the carriers which are benefited bear no part of the cost. However, there are some subsidies which have little effect on competition either because they are insignificant in amount or because they aid many modes of transportation. The subcommittee recognizes that the cost of these subsidies cannot be recovered because it is virtually impossible to impose a realistic user charge.

As of June 30, 1948, the Federal Government had spent approximately $1.2 billion for the improvement of seacoast harbors and channels.[13] This was about one-third of the total amount expended for inland water projects, not including costs allocated to flood-control and power purposes.[14] The carriers benefiting from the improvement of seacoast harbors and channels include those engaged in intercoastal and coastwise shipping, foreign water-borne commerce, inland river transportation, and domestic land transportation. For example, railroads own and operate marine equipment which moves approximately 40 to 50 percent of the total freight handled in the New York port area.[15] With so many types of water carriers—foreign and domestic, commercial and private, freight and passenger—benefiting in varying degree from the improvement of seacoast harbors and channels, the problems involved in fixing fair user charges appear insuperable. In any event, this type of aid to transportation is so generalized that it does little or no violence to the principles of fair competition embodied in the national transportation policy.

Expenditures for the improvement of seacoast harbors and channels are becoming less and less significant from the standpoint of national transportation policy. The Chief of Engineers in his annual report for the year 1948 called attention to the fact that the total backlog of

[9] See table II, subcommittee hearings, p. 13.
[10] See table prepared on the basis of figures compiled by the Board of Engineers for Rivers and Harbors, subcommittee hearings, p. 208.
[11] Subcommittee hearings, p. 1271.
[12] Ibid.
[13] Annual Report of the Chief of Engineers U. S. Army, vol. 1, p. 22 (1948); subcommittee hearings, p. 192.
[14] Ibid.
[15] Subcommittee hearings, p. 1541.

authorized and recommended river and harbor projects was over $3,949,000.[16] Of this total backlog, however, only 9 percent includes work on seacoast harbors and channels.[17]

Federal expenditures in aid of Great Lakes transportation constitute an indirect subsidy to Great Lakes carriers. The amount of the subsidy, however, is not large enough to affect nonsubsidized competitors. Of the current backlog of authorized and recommended inland waterway projects only 6 percent are for the Great Lakes.[18] In addition to benefiting from only a small portion of the Federal Government's inland waterway expenditures, Great Lakes carriers do not compete to any significant extent with other domestic land and water carriers. It long has been recognized that it is unrealistic to impose a user charge on Great Lakes carriers for the purpose of equalizing competition. The late Joseph B. Eastman in his capacity as Federal Coordinator of Transportation pointed out that improvement costs on the Great Lakes waterway "are so small per unit of traffic that assessing them against users would have had a relatively minor bearing on the volume of traffic." [19]

Domestic coastwise and Great Lakes carriers also benefited from the navigational services performed by the Coast Guard and the Coast and Geodetic Survey of the Department of Commerce. The total cost of these navigational aids for both sea and air transportation was so small, however, that the cost properly attributable to any particular form of domestic water transportation may be disregarded in studying the subsidy problem.[20]

The subsidization of intercoastal and coastwise carriers and Great Lakes carriers has not been great enough to destroy the inherent advantages of competing modes of transportation or to make feasible economically the imposition of user charges.[21] On the other hand, the expenditure of public funds for inland rivers and harbors are substantial and, unlike expenditures for seacoast harbors and channels, intended to promote a single form of transportation. This is the subsidy program which must be examined in greater detail in the light of the standards declared in our national transportation policy.

(1) Subsidies to inland river and harbor transportation

The Federal Government has spent vast sums of money on the improvement and maintenance of inland rivers and harbors. The users of these Government-provided transportation facilities pay no toll or other charge. The entire cost is borne by the general taxpayer. The fact that transportation on inland rivers and harbors is subsidized has been recognized in so many studies that no extensive citation of authority for this fact is required.[22]

It seems inconceivable that anyone could deny the obvious fact that inland water transportation is subsidized. Yet, Mr. Chester C.

[16] Annual Report of the Chief of Engineers, U. S. Army, op. cit., p. 2 subcommittee hearings, p. 197.
[17] Ibid.
[18] Ibid.
[19] Public Aids to Transportation, vol. III, p. 77.
[20] In 1949 the Coast Guard spent on and to air and sea operations, $39,641,865 (exclusive of search, rescue and law enforcement); for construction and improvements, $3,222,406; and the Coast and Geodetic Survey spent $6,843,837. U. S. Bureau of the Budget, Budget of the United States Government for the Fiscal Year ending June 30, 1951, pp. 571-572; 1044-1055.
[21] The construction-differential and the operating-differential subsidy program carried out under the Merchant Marine Act of 1936, 49 Stat. 1985, aids only shipbuilders and ship operators in foreign commerce.
[22] Subcommittee hearin s, p. 1266.

Thompson, testifying on behalf of an association of inland water carriers, and in reply to a statement by Senator Bricker, said: "We deny that there is a subsidy to the water transportation." [23] The subcommittee has observed, however, that nothing in Mr. Thompson's statement controverts the figures of other witnesses on the amount of subsidy extended by the Federal Government to inland water transportation. Mr. Thompson made a strong argument opposing user charges, justifying the subsidy to inland water carriers, and minimizing the amount of alleged subsidy. He vigorously attacked the motives of those who urged that the subsidy element in inland water transportation be abolished. In the opinion of the subcommittee, however, the furnishing of transport facilities or services at Government expense for the use of a particular group of carriers without charge is a subsidy. A transportation subsidy does not become something else simply because it may be in the national interest.

The subcommittee found very little difference of opinion on the total amount of the Federal subsidy for inland-waterway transportation. Reports of the Chief of Engineers show that as of June 30, 1948, over $5 billion had been spent by the Federal Government to improve inland waterways.[24] Excluding expenditures for seacoast harbors and channels and including certain expenditures for navigation projects not included in the report of the Chief of Engineers, the total amount of Federal funds devoted to the improvement of rivers and harbors was approximately $3.3 billion as of June 30, 1948.[25] Including public expenditures for all areas back to 1791, attention is invited to table 1 of the appendix, which shows the expenditures to be over $4 billion.[26]

More important than the cumulative total of river and harbor expenditures since 1824 are the recent trends in such expenditures. Over 75 percent of those expenditures has occurred since 1920 and over 60 percent since 1930.[27] The spiraling cost of the Federal rivers and harbors program is shown in the following figures: [28]

Actual expenditures fiscal year 1949	$159, 377, 909
Estimated expenditures fiscal year 1950	210, 000, 000
Estimated expenditures fiscal year 1951	241, 000, 000

Increased expenditures for the improvement of rivers and harbors have resulted in concomitant increases in the annual sums required for maintenance and operation. The cost of maintaining and operating inland waterway projects rose from $42,500,000 in 1940 to $50,200,000 in 1945; $68,000,000 in 1948; and an estimated $83,500,000 in 1949.[29]

At the present time there is a huge backlog of projects which already have been authorized by Congress. Approximately 85 percent of the authorized and recommended projects are on intracoastal and inland waterways.[30] The 1950 River and Harbor Act [31] increased the total

[23] Subcommittee hearings, p. 1266; recognition of the subsidy extended to inland water carriers may be found in the recent report on transportation by Secretary of Commerce Charles Sawyer who said, "there is no question but that water carriers, particularly inland-waterway carriers, do have free facilities provided for them by the Government." Op. cit., Issues Involved in a Coordinated Transportation Policy, p. 44.
[24] Op. cit., Annual Report of the Chief of Engineers, p. 22; subcommittee hearings, p. 192.
[25] Subcommittee hearings, p. 192.
[26] Ibid., p. 11.
[27] Behling, Subsidies to Transportation, Library of Congress Public Affairs Bulletin No. 86, August 1950, p. 55.
[28] Op. cit., U. S. Bureau of the Budget, p. A66.
[29] Subcommittee hearings, p. 195.
[30] Ibid., p. 197.
[31] Public Law 516, 81st Cong., 2d sess.

number of authorized projects to 1,300; the estimated cost of completion is $3.1 billion.[32] Projects which have been recommended but not yet authorized would push the total estimated cost of the projected program well over $4,000,000,000. If these estimates are no more accurate than those submitted by the Corps of Engineers in the past, the actual cost will be several times higher. For example, the House Appropriations Committee recently reported that the final construction costs for 43 projects were 390 percent higher than the estimated costs of those projects at the time they were first authorized by Congress.[33]

(2) Subsidies to particular waterways

Witnesses for inland water carriers contended that the expenditure of public funds to improve inland waterways could not be considered as a subsidy to them. Mr. Chester C. Thompson stated that official figures of the Corps of Engineers show that in 1947 the railroads transported more than 20 percent of the total tonnage moved on inland waterways.[34] These figures, however, include traffic moving on the Great Lakes and in seacoast harbors and channels. We have already pointed out that the great bulk of Federal expenditures, approximately 85 percent in recent years, has been for the improvement of inland rivers and harbors. We also have pointed out that the volume of traffic moved on the Great Lakes and seacoast harbors and channels is so great in relation to Federal expenditures that the amount of subsidy per ton-mile is negligible.[35]

The extent to which inland water transportation is subsidized could be appreciated better if the total subsidy could be translated into an annual cost per ton-mile on particular segments of the inland waterway system. Unfortunately, there is little data available which breaks down the total subsidy figures. In 1940, however, the Board of Investigation and Research did compute the amount of the inland waterways subsidy for 1940. After amortizing capital facilities, eliminating expenditures for obsolete facilities no longer useful to navigation, and allocating the cost of joint facilities as between navigation and other functions and as between foreign and domestic commerce, the BIR concluded that "domestic waterway transportation was subsidized in 1940 to the extent of about $125,000,000." [36] Mr. Gregory S. Prince, appearing on behalf of the Association of American Railroads, discussed the factors which indicate that the BIR estimate for the year 1940 was conservative.[37]

Using the basic data developed in the BIR report, the following table was submitted indicating the subsidy per ton-mile of traffic moving on the Mississippi River system in 1940:

[32] Op. cit., Behling, p. 57.
[33] Subcommittee hearings, p. 227.
[34] Ibid., p. 1275.
[35] See p. 30, supra.
[36] Op. cit. Board of Investigation and Research; subcommittee hearings, p. 201
[37] Subcommittee hearings, p. 201.

Name of waterway	Water-line distance	Subsidy per ton-mile [1]	Subsidy per ton moving entire distance
	Miles	*Mills*	
Mississippi River:			
Minneapolis to mouth of Missouri	663	8.7	$5.77
Mouth of Missouri to mouth of Ohio	195	4.9	.96
Mouth of Ohio to New Orleans	869	1.7	1.48
Missouri River-Kansas City to mouth	386	107.8	41.61
Illinois waterway [2]	326	5.7	1.86
Ohio River	981	2.4	2.35
Monongahela River [3]	128	.9	.12
Allegheny River [3]	72	22.3	1.61
Kanawha River [3]	91	3.8	.35

[1] Federal channel costs per ton-mile in 1940 as determined by the Board of Investigation and Research.
[2] Includes cost of navigation facilities borne by State of Illinois and Chicago Sanitary District.
[3] Length of navigable portion.

Source: Subcommittee hearings, p. 201.

The above table indicates the extent to which subsidies placed other forms of transportation at a competitive disadvantage in 1940. Since 1940 total expenditures on inland waterways have doubled.[38] A larger share of total expenditures is being devoted to the improvement of inland rivers and canals. The amount of intercity freight traffic carried on rivers and canals in 1940 was slightly more than half that carried in 1949.[39] It seems clear, therefore, that the subsidies per ton-mile of traffic on major segments of the Mississippi River system are greater today than they were in 1940.

B. JUSTIFICATION CLAIMED FOR SUBSIDIES TO INLAND WATERWAYS

Representatives of several inland water-carrier associations argued that subsidies either are justified or cease to be subsidies if the public receives a low-cost transportation service. For example, the statement submitted by the New York State Waterways Association declares in part:

> Federal funds expended for the improvement of these natural highways of commerce to develop greater facilities for increased navigation thereon, cannot be considered as subsidies in favor of water carriers. To the contrary, every dollar of public funds appropriated for inland waterways improvement purposes is authorized on the premise that low-cost transportation will result therefrom to the benefit of the general public.
>
> The Federal Government relies upon water carriers to furnish and operate the necessary watercraft equipment to carry commerce through improved water routes in order that the public will be served with economical transportation. Therefore, it is plainly seen that water carriers are not the recipients of Federal subsidies but are recognized as those who implement the facilities so furnished to enable the Federal Government to fulfill its intentions and meet the demand of public interests.[40]

The subcommittee cannot accept such specious arguments. All transportation subsidies result in a charge to the transportation user which is lower than that which would be imposed if the service was not subsidized. The facile assumption that Government-provided waterway facilities provide a low-cost transportation service and that the general public is thereby benefited completely ignores the fact that the "general public" is also the "general taxpayer." There are

[38] See table, p. 195, Ibid.
[39] Ibid., see table, p. 198.
[40] Ibid., p. 1383.

special circumstances, of course, where the general public benefits by a transfer of part of the transportation cost from users to taxpayers. Such a transfer of cost, however, does not always benefit the general public. If this were the case, the only logical objective of the national transportation policy would be for the Government to provide "free" transportation to all shippers and passengers.

(1) Subsidies as a method of regulating rail rates

For many years the subsidization of inland waterway transportation has been supported as a method of lowering rail freight rates. This argument was repeated in the hearings held by the subcommittee. The following remark was included in a statement submitted by Mr. Paul D. Jackson on behalf of two associations whose members operate in the port of New York area:

> Unfortunately, today, however, were it not for the existence of a growing and strong waterway-transportation industry, rail rates would be much higher, as witness the hundreds of ex parte cases before the Interstate Commerce Commission, instituted by the railroads under section 4 of the law, seeking to lower rail freight rates which are in competition with other types of carriers. These cases demonstrate clearly to the American people that without competition in carriers they would be at the mercy of an unhampered transport monopoly which is admittedly operating at a very inefficient level. [41]

Mr. Chester C. Thompson, president of the largest trade association in the barge and towing vessel industry, said:

> Almost without exception, freight rates are lower where water transportation is available; and with few exceptions, the great manufacturing and distributing centers of the Nation—and of the world for that matter—are located on navigable waters. The use of this form of freight carriage definitely keeps costs down, and thus means lower prices to all consumers.
>
> The influence of low water freight rates on all other freight rates is readily acknowledged by experienced traffic men.[42]

Subsidies to inland water transportation as a means of depressing rail freight rates might have been a sound policy in 1850. One hundred years ago railroads in many areas had a virtually complete transportation monopoly and were not regulated by the Federal Government. Ever since 1887, Federal regulation of railroad rates has been considered to be the exclusive function of the Interstate Commerce Commission. Regulation of railroad rates by the ICC is far more equitable and efficient than any attempt to regulate rail rates through a multibillion dollar subsidy program.

It is true, of course, that the subsidization of inland waterways has intensified competition between rail and water carriers. It is true also that rail rates in certain areas and on a limited number of commodities have been depressed abnormally by virtue of water carrier competition inspired by Federal expenditures. In order to meet subsidized water competition, the railroads have filed thousands of applications under the relief provisions of the so-called fourth section [43] asking for the right to charge less for longer than for shorter distances. In addition, when rail rates have been depressed by subsidized water competition, there is a natural tendency to compensate for this loss of revenue by raising rates on traffic which is not vulnerable to water carrier competition. In the opinion of the subcommittee, subsidization of inland water transportation is not only an ineffective method of

[41] Ibid., p. 1544.
[42] Ibid., p. 1268.
[43] Interstate Commerce Act, sec. 4 (1).

rate regulation, but it sets in motion an ever-widening circle of discrimination among shippers, a condition repugnant to one of the fundamental purposes of regulation.

It also is interesting to observe that while some of the witnesses for inland water carriers pointed with pride at the extent to which Federal inland expenditures have lowered rail rates, they also viewed railroad competition with considerable alarm. This colloquy between Senator Bricker and Mr. Chester C. Thompson is fairly typical:

> Mr. THOMPSON. * * * These freight-rate reductions, on particular commodities and only in selective areas of the country—continually made despite the fact that the rail carriers have received general freight-rate increases of well over 50 percent in the last 4 years—are making it difficult for some water carriers to continue in business and remain solvent, which they propose to do.
>
> Senator BRICKER. Are those the depressed rates that you took credit for giving the American people?
>
> Mr. THOMPSON. Depressed rates; yes, sir.
>
> Senator BRICKER. Then those are the ones you said the public benefits by?
>
> Mr. THOMPSON. That is right; yes, sir.[44]

(2) Subsidies as a requirement of the national defense

Virtually every witness who testified on behalf of inland water carriers called attention to the fact that such carriers played a vital role in World War II and would likewise be essential in any future national emergency.[45] The subcommittee is aware of the fact that the Nation's inland waterways represent an important defense transportation facility. No useful purpose would be served in attempting to evaluate the relative worth of various transportation media from the standpoint of war mobilization requirements. We can ill-afford to lose any of our major transportation systems.

The importance of any method of transportation to the national defense does not, of course, justify a subsidy to that form of transportation. Moreover if the defense value of inland waterway transportation justifies a heavy subsidy for that form of transportation, there is no reason, at least on military grounds, for not extending a comparable subsidy to railroads and pipelines (oil).

Our national transportation policy is predicated on the belief that the requirements of national security will be fully satisfied if the inherent economic advantages of all modes of transportation are recognized and preserved. The inherent economic advantages of inland water transportation never can be ascertained so long as a substantial part of the cost of that transportation is borne by taxpayers rather than by users.

The argument that national defense requires the Federal Government to provide and maintain inland waterways without cost to the carriers who use them is an implied admission that inland water transportation does not possess any inherent economic advantages over other modes of transportation. We do not believe that inland waterway transportation is so devoid of economic merit. The imposition of a fair user charge to reimburse the Government for the cost of the transportation facilities it has provided would not destroy inland water transportation. If the Federal subsidy to waterways were eliminated, the United States, in our opinion, would still have

[44] Subcommittee hearings, p. 1272.

[45] Mr. Chester C. Thompson pointed out that over 4,000 combat and supply vessels and nearly 50,000 tons of ship sections were built at inland shipyards and had to be moved on inland waters to Gulf and ocean ports (subcommittee hearings, pp. 1269-70).

a strong inland waterway system, and an even stronger national transportation system.

(3) Subsidies as a method of securing low-cost transportation service

In resisting any change in the present Federal subsidy program, witnesses for the water carriers most heavily relied on the argument that the general public benefits from the low-cost transportation service provided on inland waterways. The principal spokesman for the industry said that water transportation "means lower prices to all consumers," [46] "regardless of whether they live, work, or operate business on navigable waters or some distances therefrom." [47] Railroad witnesses attacked these claims by pointing out that inland waterways serve only a limited geographical area,[48] a relatively few large shippers,[49] and facilitate the movement of only a limited number of commodities.[50]

Assuming for the sake of argument that inland waterway expenditures actually provide a "low cost" transportation service, we are inclined to agree with the water carrier witnesses that the benefits of the low-cost service are distributed generally throughout the economy. Any low-cost transportation of basic commodities probably would be reflected in lower production and living costs.[51]

The crucial point, it seems to us, is whether or not Federal aid to inland waterways produces any real benefits which can be distributed. The answer of Charles L. Dearing and Wilfred Owen on this point appears impressive:

> When one form of transportation is subsidized by public expenditures for basic facilities, traffic may be attracted to the subsidized agency, because rates do not have to cover total economic costs. In the case of water transportation, rates reflect only the cost of owning and operating the equipment, and not the cost of providing the waterway. The user of the subsidized water carrier pays only the "transportation cost," and the remaining cost is borne by the general taxpayer. Savings accrue to the shipper, but from a national viewpoint the economy of water transport is illusory since the balance of total cost is met by nonshippers.[52]

The real danger connected with transportation subsidies goes far beyond the question of who, as a matter of equity, should pay the real transportation charge. The fact that from a national viewpoint the economy of a subsidized transportation service may be illusory does not make the savings any less real to the shipper. Traffic moves primarily in accordance with comparative rates. In spite of the fact that the development of the transportation system has been affected by governmental regulatory and promotional policies, individual units in the industry still expand and contract in response to the daily decisions of millions of shippers and passengers. It is that freedom of choice which, in the final analysis, has been responsible for the national transportation system we have today. That freedom of choice can be rendered utterly meaningless, however, if the Federal Government extends and increases its programs of aid to transportation. Presumably, we would still have intercarrier competition and traffic man-

[46] Subcommittee hearings, p. 1268.
[47] Ibid., p. 1276.
[48] Ibid. p. 204.
[49] Ibid., pp. 207–208.
[50] In 1948, 83 percent of the domestic traffic moved on inland waterways consisted of eight bulk commodities and about 79 percent of that traffic consisted of only three bulk commodities (petroleum and products; coal and coke; sand, gravel and stone) (subcommittee hearings, pp. 208–209).
[51] Subcommittee hearings, p 1543.
[52] Op. cit., Dearing and Owen, p. 87.

agers seeking out the lowest rate. But, the transportation system would be molded by the Federal Government rather than by the votes of its citizens cast daily in the market place.

C. REVISION OF FEDERAL PROMOTIONAL POLICIES FOR INLAND WATERWAYS

(1) *Imposition of fair user charges*

All of the water-carrier witnesses who appeared before this subcommittee claimed that inland waterway transportation affords the public an efficient and economical service.[53] In our opinion the "economical and efficient service" which the national transportation policy is intended to promote means a service for which shippers bear the full cost. We believe that inland waterway carriers can render economic and efficient service even though they pay a fair charge for the use of facilities provided by the Federal Government.

We recommend that fair user charges be imposed by Congress for the use of improved inland rivers and harbors. Further, we would add a general recommendation that a user charge should be assessed against all carriers who obtain a significant competitive advantage of other carriers as a result of Federal aid to transportation. This recommendation appears to be in accord with the legislative program of the President. In his budget message to Congress on January 3, 1950, President Truman said:

> The long-term interests of the general taxpayer, as well as the user of transportation, will best be served by the development of a balanced transportation system, *substantially independent of Government support.* [Emphasis added.]

In his recent report to the President, Secretary of Commerce Charles Sawyer advanced the following reasons in support of minimizing or eliminating transportation subsidies through a system of user charges:

> One such yardstick [to measure the utility of Federal subsidy programs], which might well be considered immediately, is the general system of user charges. Careful study should be made of the areas in which user charges are not now in effect. In those areas such as roads in which user charges already apply, it is desirable to determine whether each type of user is paying his fair share. Since the facilities are provided for the benefit of transportation users directly or for the benefit of transportation companies who in turn supply services for the using public, it might be desirable for the Government to recapture an important part, and in some cases, all of its expenditures.
>
> The imposition of charges, moreover, could provide concrete evidence of the actual value of the various aids which were being supplied. Failure of the users to utilize facilities for which some charge was made would suggest that such facilities are not economically justified. On the other hand, the prompt and adequate payment for other facilities might suggest that additional emphasis be placed on those parts of the program which the public was willing to support. It is recognized that wider imposition of user charges raises complicated problems which need to be explored. Nonetheless, the Federal Government should undertake to study and resolve the issue of assessing user charges as speedily as possible.[54]

We recognize that legislation to effectuate our recommendation requires a full investigation devoted exclusively to the development of legislative standards which will determine when, and to what extent, user charges are "fair." Our attention has been directed to a few of

[53] E. g., subcommittee hearings, p. 1386.
[54] Op. cit., Issues Involved in a Unified and Coordinated Federal Program for Transportation, p. 24.

the problems which would arise in connection with prescribing an equitable plan of user charges:

(*a*) To what extent are individual segments of the inland waterway system subsidized? The answer to this question must be found because Congress probably will not be inclined to establish a system of tolls for waterways where the amount of subsidy is negligible.

(*b*) What river and harbor improvements benefit navigation, and to what extent should part of the cost be allocated to nonnavigation purposes?

(*c*) What charge should be assessed if a full user charge would destroy the value of existing waterways? [55]

(*d*) On what basis should user charges be assessed: ton-mile, vessel, cargo, or some combination of these?

(*e*) To what extent, if any, should determination of a fair user charge be affected by the fact that the location of particular industries has been influenced by subsidized inland water transportation?

Although the problems involved in formulating a legislative policy for user charges are extremely complex, the need for such a policy has long been recognized. Certainly the difficulty of the problem should not further deter prompt attention to it.

D. AID TO HIGHWAYS

Generally speaking, the principles applicable to Government aid, or subsidy, to water transportation, apply with equal vigor to Government aid to motor freight transportation. We have chosen to explore the example with respect to waterways in greater detail for reasons which are more or less compelling. In the first place, the fixing of the degree of benefit and the beneficiary is a much lesser problem in the consideration of Federal aid to water carriers. Secondly, the contribution of water carriers to the maintenance of waterways is not incapable of ascertainment. In the motor carrier field, not only is the contribution of highway users in proportion to their usage a matter of argument, but any attempt to establish an appropriate proportion in that contribution arouses immediate controversy. It must be admitted, too, that reliable statistics with respect to motor carriers are hard to find. This is due only in part to the reluctance of the industry to supply them. Generally speaking, the vastness of the industry and the less-than-adequate nature of Government regulation of it simply preclude the collation of figures that represent more than what may be generously termed informed estimates.

The subcommittee believes it is essential to measure the problem and to take immediate further steps to meet it. To that end, we shall discuss in some detail the difficulties posed in measuring Government subsidy to commercial highway users, as well as some of the steps which have been taken, primarily by the several States, to meet those difficulties. It is not unusual for the States to pioneer in this regulatory field. Indeed, in the opinion of the subcommittee, it is entirely logical that they do so. We commend the studies which have been

[55] A railroad witness suggested that the impossibility of recovering the full cost of certain waterways should be recognized, but that the cost of maintaining and operating an existing waterway should be used to establish a minimum user charge (subcommittee hearings, p. 214).

made and are now under way, and particularly the efforts of the States of New York and Oregon for their attempts in the assessment of proportional user charges.

The expenditures made by Federal, State, and local governments to support the Nation's highway systems are quite substantial. Recent proposals for highway outlays ranging between $41 billion [56] and $55 billion [57] have been suggested for the next 10 to 15 years to bring all the Nation's roads, streets, and highways up to standards necessary to handle large, heavy trucks in addition to other traffic. The Committee on Highway Finance of the American Association of State Highway Officials has found that an annual expenditure of well over $4 billion for the next 15 years is required for the Nation's streets and highways.[58] Such an annual outlay would be more than $1 billion in excess of the 1948 outlay of $3.1 billion.[59] For a limited review of the governmental expenditures on highways over the past 30 years, as well as that contribution of the various classes of users as may be determined from special tax figures, see tables 13, 14, and 15 appearing in the appendix to this report.[60] Whether any relationship should be recognized between Federal aids and Federal automotive excise taxes is a matter of policy which is subject to some argument.[61]

The issue of subsidy to highway transportation centers chiefly on the use by the large and heavy over-the-road trucks engaged in intercity traffic of freight. The traffic of large and heavy vehicles may affect the annual costs of highways in many ways. The first such result is occasioned by the imposition of more expensive design and construction requirements. Experience has shown that an adequate pavement surface to carry passenger cars and trucks up to a licensed capacity of one and one-half tons may be built for a cost of approximately $15,000 per mile. Pavement surfaces equally serviceable for heavier trucks with licensed capacities up to 20 tons cost about $46,000 per mile. State registration statistics indicate that the total motor vehicle registration in Nebraska in 1948 was 508,925, of which 466,560, or 91.7 percent, consisted of "light traffic" vehicles (passenger cars, taxies, and trucks of 1½ tons capacity or less) and 42,365, or 8.3 percent, consisted of "heavier traffic" vehicles (over 1½ tons capacity). "Of these heavier vehicles," the analysis concludes, "only a little over 10 percent have licensed capacities of more than 10 tons. This 10 percent is the most destructive group of vehicles."[62]

The number of lanes required for a highway depends primarily upon the number of vehicles using the highway during peak periods. The composition of traffic also influences the number of lanes required. More lanes are required when a large number of trucks use the highway than is required when all the vehicles are passenger cars. Conditions are generally satisfactory when an adequately-designed two-lane road in level terrain has a traffic volume of 900 passenger cars

[56] Joint Committee on the Economic Report, Highways and the Nation's Economy, S. Doc. No. 145, 81st Cong., 2d sess., p. 4.
[57] Estimate as of October 15, 1948, prepared in Highway Cost Section, BPR, Fred B. Farrell, Chief. See report by Roy E. Jorgensen, Financing a Nation-wide Highway Program, to the twenty-ninth annual meeting of the Highway Research Board, December 14, 1949 (subcommittee hearings, p. 149).
[58] Thomas H. MacDonald, Commissioner of Public Roads, speech before forty-seventh annual meeting of the American Road Builders' Association, Cincinnati, Ohio, March 6, 1950 (subcommittee hearings, p. 149).
[59] Subcommittee hearings, p. 149.
[60] Ibid., p. 148.
[61] U. S. Board of Investigation and Research. Public Aids to Domestic Transportation (H. Doc. 159, 79th Cong., 1st sess., staff report, p. 288).
[62] Blue Print, College of Engineering and Architecture of the University of Nebraska, Roy M. Green, p. 112; subcommittee hearings, p. 169.

the problems which would arise in connection with prescribing an equitable plan of user charges:

(*a*) To what extent are individual segments of the inland waterway system subsidized? The answer to this question must be found because Congress probably will not be inclined to establish a system of tolls for waterways where the amount of subsidy is negligible.

(*b*) What river and harbor improvements benefit navigation, and to what extent should part of the cost be allocated to nonnavigation purposes?

(*c*) What charge should be assessed if a full user charge would destroy the value of existing waterways? [55]

(*d*) On what basis should user charges be assessed: ton-mile, vessel, cargo, or some combination of these?

(*e*) To what extent, if any, should determination of a fair user charge be affected by the fact that the location of particular industries has been influenced by subsidized inland water transportation?

Although the problems involved in formulating a legislative policy for user charges are extremely complex, the need for such a policy has long been recognized. Certainly the difficulty of the problem should not further deter prompt attention to it.

D. AID TO HIGHWAYS

Generally speaking, the principles applicable to Government aid, or subsidy, to water transportation, apply with equal vigor to Government aid to motor freight transportation. We have chosen to explore the example with respect to waterways in greater detail for reasons which are more or less compelling. In the first place, the fixing of the degree of benefit and the beneficiary is a much lesser problem in the consideration of Federal aid to water carriers. Secondly, the contribution of water carriers to the maintenance of waterways is not incapable of ascertainment. In the motor carrier field, not only is the contribution of highway users in proportion to their usage a matter of argument, but any attempt to establish an appropriate proportion in that contribution arouses immediate controversy. It must be admitted, too, that reliable statistics with respect to motor carriers are hard to find. This is due only in part to the reluctance of the industry to supply them. Generally speaking, the vastness of the industry and the less-than-adequate nature of Government regulation of it simply preclude the collation of figures that represent more than what may be generously termed informed estimates.

The subcommittee believes it is essential to measure the problem and to take immediate further steps to meet it. To that end, we shall discuss in some detail the difficulties posed in measuring Government subsidy to commercial highway users, as well as some of the steps which have been taken, primarily by the several States, to meet those difficulties. It is not unusual for the States to pioneer in this regulatory field. Indeed, in the opinion of the subcommittee, it is entirely logical that they do so. We commend the studies which have been

[55] A railroad witness suggested that the impossibility of recovering the full cost of certain waterways should be recognized, but that the cost of maintaining and operating an existing waterway should be used to establish a minimum user charge (subcommittee hearings, p. 214).

made and are now under way, and particularly the efforts of the States of New York and Oregon for their attempts in the assessment of proportional user charges.

The expenditures made by Federal, State, and local governments to support the Nation's highway systems are quite substantial. Recent proposals for highway outlays ranging between $41 billion [56] and $55 billion [57] have been suggested for the next 10 to 15 years to bring all the Nation's roads, streets, and highways up to standards necessary to handle large, heavy trucks in addition to other traffic. The Committee on Highway Finance of the American Association of State Highway Officials has found that an annual expenditure of well over $4 billion for the next 15 years is required for the Nation's streets and highways.[58] Such an annual outlay would be more than $1 billion in excess of the 1948 outlay of $3.1 billion.[59] For a limited review of the governmental expenditures on highways over the past 30 years, as well as that contribution of the various classes of users as may be determined from special tax figures, see tables 13, 14, and 15 appearing in the appendix to this report.[60] Whether any relationship should be recognized between Federal aids and Federal automotive excise taxes is a matter of policy which is subject to some argument.[61]

The issue of subsidy to highway transportation centers chiefly on the use by the large and heavy over-the-road trucks engaged in intercity traffic of freight. The traffic of large and heavy vehicles may affect the annual costs of highways in many ways. The first such result is occasioned by the imposition of more expensive design and construction requirements. Experience has shown that an adequate pavement surface to carry passenger cars and trucks up to a licensed capacity of one and one-half tons may be built for a cost of approximately $15,000 per mile. Pavement surfaces equally serviceable for heavier trucks with licensed capacities up to 20 tons cost about $46,000 per mile. State registration statistics indicate that the total motor vehicle registration in Nebraska in 1948 was 508,925, of which 466,560, or 91.7 percent, consisted of "light traffic" vehicles (passenger cars, taxies, and trucks of 1½ tons capacity or less) and 42,365, or 8.3 percent, consisted of "heavier traffic" vehicles (over 1½ tons capacity). "Of these heavier vehicles," the analysis concludes, "only a little over 10 percent have licensed capacities of more than 10 tons. This 10 percent is the most destructive group of vehicles."[62]

The number of lanes required for a highway depends primarily upon the number of vehicles using the highway during peak periods. The composition of traffic also influences the number of lanes required. More lanes are required when a large number of trucks use the highway than is required when all the vehicles are passenger cars. Conditions are generally satisfactory when an adequately-designed two-lane road in level terrain has a traffic volume of 900 passenger cars

[56] Joint Committee on the Economic Report, Highways and the Nation's Economy, S. Doc. No. 145, 81st Cong., 2d sess., p. 4.

[57] Estimate as of October 15, 1948, prepared in Highway Cost Section, BPR, Fred B. Farrell, Chief. See report by Roy E. Jorgensen, Financing a Nation-wide Highway Program, to the twenty-ninth annual meeting of the Highway Research Board, December 14, 1949 (subcommittee hearings, p. 149).

[58] Thomas H. MacDonald, Commissioner of Public Roads, speech before forty-seventh annual meeting of the American Road Builders' Association, Cincinnati, Ohio, March 6, 1950 (subcommittee hearings, p. 149).

[59] Subcommittee hearings, p. 149.

[60] Ibid., p. 148.

[61] U. S. Board of Investigation and Research. Public Aids to Domestic Transportation (H. Doc. 159, 79th Cong., 1st sess., staff report, p. 288).

[62] Blue Print, College of Engineering and Architecture of the University of Nebraska, Roy M. Green, p. 112; subcommittee hearings, p. 169.

per hour or when a multilane road is traveled by 1,000 passenger cars per lane per hour. The total number of vehicles that either of these two types of highways will accommodate decreases with the increase in the number of trucks on the highway. Trucks have a greater effect upon highway capacity than the physical dimensions would indicate.

One truck on level terrain is equivalent to two passenger cars on a multilane highway and to 2½ passenger cars on a two-lane highway. In hilly terrain one truck on a multilane highway is equivalent to four passenger cars, and on a two-lane highway is equivalent to five passenger cars.[63]

The following table,[64] which has been prepared from the results of studies on a number of large highways, shows practical highway capacities under varying conditions.

Effect of commercial vehicles on the practical capacity of rural highways constructed to modern design standards

Commercial vehicles	Practical capacity	
	Two-lane roads, vehicles per hour both directions	Multilane roads, vehicles per lane per hour
IN LEVEL TERRAIN		
Percent of total traffic:		
None	900	1,000
10	780	910
20	685	830
30	620	760
IN ROLLING TERRAIN		
Percent of total traffic:		
None	900	1,000
10	642	769
20	500	625
30	454	526

A special study made by the California Division of Highways at the suggestion of the joint fact-finding committee of the California Legislature revealed that the provision of highways adequate for heavy commercial-vehicle use increased costs of highway construction substantially. All construction projects designed and let to contract during 1947 (amounting to $43,600,000 in total cost) were analyzed. It was found that the cost would have been $35,700,000 had the highways been designed for light vehicles only. Heavy vehicles were directly responsible for $7,900,000 of the costs on these particular projects.[65]

Secondly, damage caused to the road by trucks may materially reduce the length of life of the investment. Officials responsible for highway administration and finance are viewing with increasing concern the damaging effects of heavily loaded trucks upon roadways

[63] Subcommittee hearings, p. 965.
[64] Ibid., p. 966.
[65] Report of the Subcommittee of the Standing Committee on Transportation of the Senate to the California Legislature, 1949, Regular Session (report dated December 31, 1948), pp. 34, 40. Subcommittee hearings, p. 165.

and structures, the burden of costs for their construction and maintenance, and limitations upon the availability of highway capacity to other motor vehicles.[66]

An obvious corollary is the increase in annual charges for maintenance and operation. The investigation authorized by the California senate led to the following recommendation: "Obviously, they (heavy vehicles) should also share in the joint burden of highway maintenance and administration. On the ton-mile basis, they would be assigned 45 percent of these costs. For all expenditures, then, heavy vehicles would be held responsible for about 52 percent of the total costs according to this study * * * their estimated user payments under the present tax system amount to less than 35 percent of the total." [67]

Finally, and not at all insignificantly, the operating characteristics of these trucks results in lowered capacity of the roads, and in hardships, danger, and inconvenience to other users.

The most fundamental question, that is, what proportion of the total cost of highways should be borne by all motor vehicles, has as yet received no satisfactory answer, and will not until more detailed study has been given to the relative benefits derived by vehicle owners and other beneficiaries from highways and highway improvement.

Whether the heavy trucks pay adequate user taxes for their use of public highway facilities is vigorously argued. The truck operators insist that they pay as much as, if not more than, the costs properly attributable to them, and assail methods of analysis and cost allocations which show them to be subsidized.

It was indicated at the hearings that the tax chiefly relied upon by the States is the gasoline tax. There are those who believe that the gasoline tax does not result in the payment by the large and heavy trucks of their fair share of the cost of providing and maintaining public roads. Several of the States have made studies which indicate that the gasoline tax gives preference to large and heavy trucks, and imposes an unfair discriminatory burden on the passenger automobile and light truck.[68]

In most States Diesel fuel is taxed at the same rate as gasoline. More mileage is obtained from a gallon of Diesel fuel than from a gallon of gasoline. Thus Diesel-powered combinations, in some States, pay less fuel taxes per mile of operation than do gasoline users.[69]

Alternate theories or methods of approach to the motor-vehicle tax problem were discussed in the report, Notes on the Problem of Allocating Motor-Vehicle Tax Responsibility Among Vehicles of Different Types and Sizes.[70] Of the methods described, the incremental solution, which assigns tax responsibility in accordance with the highway costs occasioned by the use of vehicles of different sizes, is the one most firmly grounded in engineering theory and experience. The gross-ton-mile solution, which would assess highway tax responsibility in proportion to the product of miles traveled and average operating gross weight has found favor in a number of recent investigations of

[66] Behling, op. cit., p. 23.
[67] Report of the Subcommittee of the Standing Committee on Transportation of the Senate to the California Legislature, op. cit. Subcommittee hearings, p. 165.
[68] Subcommittee hearings, pp. 165–169.
[69] Ibid., p. 162.
[70] Ibid., p. 1043.

the subject, chiefly because of its simplicity of concept and the relative ease with which the data and estimates needed for the solution can be obtained. But even for this solution in its simplest form, there is the practical difficulty that the weight and mileage of vehicles are not supplied by the public records available in most States. And if it is desirable to apply to the ton-mile base varying rates of tax corresponding to different weight groups of vehicles, the problems presented became essentially the same as those of the incremental solution. A third type of solution would assign highway tax responsibility in proportion to the savings in motor-vehicle operating costs resulting from highway improvements. Any one of these solutions requires the systematic accumulation of data pertaining to highways and motor vehicles. For a well-organized and thoroughgoing attack on the problems of motor-vehicle taxation a thorough program of research is required.

Studies of the effect of the magnitude and frequency of heavy loads on pavement life and maintenance costs may be accomplished in two ways: First, by direct observation and measurement of the deterioration produced by the repeated passage of heavy vehicles over selected pavement sections; and second, by statistical studies of the relation between the volume and weight composition of traffic and the annual costs of highways. Current examples of these two types of studies are found in the experimental road test that has been under way since June 22, 1950, in southern Maryland on a 1.1-mile stretch of U. S. Route 301. The test strip is located 9 miles below LaPlata and 45 miles south of Washington, D. C. The project is a study of the performance of a concrete pavement under operation of eight commercial-type vehicles loaded to 18,000 and 22,400 pounds on single axles and 32,000 and 44,800 pounds on tandem axles. Each of these axle loads is applied to a separate section of pavement at an average frequency of about one per minute on a 24-hour basis.

This project was first proposed by the Interregional Council on Highway Transportation at Columbus, Ohio, on December 5 and 6, 1949, and has been arranged cooperatively and financed by the State highway departments of 11 States—Connecticut, Delaware, Illinois, Kentucky, Maryland, Michigan, New Jersey, Ohio, Pennsylvania, Virginia, Wisconsin—and the District of Columbia and the Bureau of Public Roads.

The primary purpose of this project is to observe and measure the effects of the frequent passages of vehicles of known axle loading at known speeds over a pavement of known composition and dimensions, constructed on foundations of known character.[71]

This test is expected to determine the effect of truck transportation on our highways. For the first time in the history of modern truck transportation, the industry and its bitter critics will acquire scientific facts which may settle some serious charges heretofore based on mere speculation.

The third field of research essential to a well-rounded study of motor-vehicle taxation consists of the study of motor-vehicle operating costs under varying conditions that will yield estimates of the effects of highway improvements on savings in such costs. Studies of this character may be made in three different ways: (1) by the operation of test vehicles under controlled conditions; (2) by the analysis

[71] Highway Research Board, Road Test One—Maryland Report No. 1, 6-30-59, p. 2.

of records of motor-vehicle operations; and (3) by questionnaire or interview studies. The items of motor-vehicle ownership and operating costs most pertinent to the subject are the costs of fuel, lubrication, tires and tubes, maintenance and repairs, and the capital-cost items of depreciation and interest. Evaluation of the time factor is significant to motorist or commercial operator since time savings are an important consideration in the design of road improvements. The elements of highway improvement that are of the greatest importance with respect to the benefits or savings derived by vehicles of different sizes include (1) reduction in distance between termini, (2) improvement in roadway surface, (3) reduction in rise and fall, (4) improvements in gradients, (5) improvements in alinement, and (6) the elimination of traffic stops and other impediments to the free flow of traffic.

Another field of inquiry essential to all of the alternative methods of solution of the motor-vehicle tax problem is that of determining the distribution of travel of vehicles of different types and sizes among the several road and street systems. Field measurements of traffic volume and its composition by vehicle types and weights provide the most direct means of obtaining such information.

Due to limitations on the extension of traffic measurement, it is necessary to resort to questionnaire or interview surveys of a sample of the motor-vehicle population. Respondents are asked to supply information regarding the miles traveled by their vehicles in a year or other period, and the distribution of such travel over the several road and street systems. In order that studies of this type may be successful, motor-vehicle registration records from which the samples are drawn must be properly classified with respect to vehicle type and size. The latter element should be expressed preferably in terms of declared or permissible gross weight.

The required program of research as described in the preceding paragraphs is very complex and of formidable magnitude. Much of the needed work, however, has been accomplished and much is now being carried on. Furthermore, the mechanism exists for expansion and intensification of the program. Acting under authorizations in successive Federal-aid highway acts, 48 States and the District of Columbia, in cooperation with the Bureau of Public Roads, conduct continuous research and record-keeping operations of great value in the study of motor-vehicle taxation. The Highway Research Board of the National Research Council sponsors and coordinates research work, provides a research correlation service to all States, and constitutes a forum for the discussion and publication of results. The American Association of State Highway Officials, not in itself a research agency, is active in encouraging highway research, in determining the need for further studies, and in enlisting the cooperation of appropriate agencies to conduct them.

A summary of pertinent recommendations set forth in A Report to the Governor's Conference is quoted to indicate one organized movement toward unification of purpose and uniformity of policy:

ENGINEERING

Highway traffic has increased tremendously during the last decade, yet most of the highways now in use were built between 1920 and 1940. They have deteriorated seriously in recent years, wearing out faster than the States have been able

to proceed with reconstruction. Sound engineering in road design, construction, and improvement is needed to provide for present-day traffic needs and to eliminate such material dangers as narrow lanes and bridges, heavy grades, sharp turns, and rough surfaces. This is not only an engineering problem—it is a financial problem, particularly a problem of the regulation and control of the use of the roads.

It is recommended that the States immediately reexamine their highway planning and construction programs. Unless they have done so recently, they are urged to make comprehensive studies of present and future highway needs. Wherever possible, inadequate patch-work programs should be delayed until a comprehensive plan of improvements is developed.

Special attention in planning and designing new highways should be devoted to the needs of modern traffic and to hazard areas. On the basis of factual studies, States should advance improvements to construction as early as possible on heavily traveled, primary roads.

SIZE AND WEIGHT LIMITATIONS

Very few of the roads now in use were built to carry loads exceeding an axle weight of 18,000 pounds. Most of the States have statutes which conform to this limitation. In a number of States greater axle weights are permitted.

Regardless of the limitations in state statutes, there are extensive violations in gross overloading of trucks. These violations—usually by a small percentage of truck owners and operators—are causing material damage to our existing highways and are gradually destroying, in large part, the $50 billion investment which the American people have in the highway system. The result is that in many States a disproportionate part of all available highway revenue must be used for maintenance, leaving little for badly needed new construction.

It is recommended that the size and weight limitations contained in standards of the American Association of State Highway Officials, "Maximum dimensions, weights, and speeds of motor vehicles to be operated over the highways of the United States," be enacted into law and adhered to by all the States.

No increases in present size and weight restrictions should be permitted pending completion of investigations of road capacity and surface strength now being made by various State highway departments in cooperation with the United States Bureau of Public Roads.

State statutes should provide penalties for violations adequate to insure compliance with State laws. Withdrawal of license should be provided for in case of repeated, willful violations.

TAX AND FISCAL POLICY

Large sums have been required to build and maintain the present road system. The spectacular increase in motor traffic will necessitate still larger expenditures. Highway-user taxes and other revenues which contribute to highway maintenance and construction have not kept pace with needs. Maintenance and new construction have been provided for to some extent from accumulated surpluses, increased Federal aid, and recently, in some States, from borrowing. Existing highway tax sources, at present rates, will not be adequate in many of the States for necessary maintenance and needed new construction.

It is recommended that the States, through appropriate agencies, make thorough studies of their highway tax structures and their fiscal needs and resources. In these studies particular consideration should be given to equitable distribution of highway costs among the several classes of highway users.

In some States, where highway revenues are inadequate, the motor-fuel tax is a potential source of additional revenue.

States should consider enacting a weight and mileage tax, based on gross weight carried and miles traveled; or, as an alternative, increasing registration fees or special weight taxes on motor carriers so that these vehicles may bear their proportionate share of the tax burden.[72]

Although much excellent work is being done in the study of motor-vehicle taxation, there is great need for a unifying force to give impetus and a sense of direction to the program. Congressional authorization of a comprehensive study of the subject, involving the coopera-

[72] The Council of State Governments, A Report to the Governor's Conference, 1950, Summary and Recommendations.

tion of the Federal Government and all the States, would provide this needed stimulus. Any Nation-wide appraisal of the extent to which motor vehicles of different types and sizes pay their way must analyze the situation which prevails in each individual State. The States and their civil subdivisions have the primary responsibility for highways; nearly all special imposts on highway users are levied by the States; and the cost of roads to be paid for and the number of vehicles to pay vary from State to State.

In conclusion, it is clear that the Congress should provide the leadership in determining the proportionate share of highway costs which should be borne by heavy motor carriers, so that proper user costs may be fixed. To that end, we recommend that the Bureau of Public Roads be instructed to pursue and continue its study into the matter, so that a proper tax base may be established and recommended to the several States. Further, in order to minimize further damage to primary highways, we recommend that standard axle-load limits be fixed by Congress, as a prerequisite to the granting of Federal funds for highway aid. Finally, we recommend that an extension of the current Federal transportation tax to carriers now exempt be studied to the end that those motor carriers might bear at least a partially equitable share of the Federal cost of maintaining our highways.

V. The Particular Problems of the Railroads

The subcommittee feels justified in devoting a separate section of its study to the problems of the railroads. They are the backbone of the American transportation system. This will continue to be the case so long as the railroads serve as the primary means for the movement of heavy materials and commodities in bulk. No other system of transportation has demonstrated its ability to move all types of freight, or to extend an unlimited transportation service in all areas to all classes of shippers. For the foreseeable future an efficient, dependable rail-transportation system seems necessary for the realization of the full potential of an expanding economy.

In time of war the railroads perform an indispensable service. Other forms of transportation have been promoted and developed with Federal funds because of their alleged importance to the national defense.[73] During World War II, however, it was the self-supporting railroad industry on which the Nation relied primarily for the movement of war traffic. About 90 percent of all military freight and about 97 percent of organized military travel moved by rail.[74] From the standpoint of national security the railroads have a marked inherent advantage over other forms of transportation. They have a tremendous reserve capacity which can be utilized for war traffic "by the simple, ready, and efficient expedient of putting more tons in a car, adding more cars to a train, running more trains on a track."[75] The expansion of railroad capacity in response to wartime requirements does not involve heavy demands for scarce equipment, materials, or manpower. A witness for a trucking association observed that if you "take an 80-car freight train, with a crew of around 8 men on it and put that freight in trucks you will have from 160 to 200 men working

[73] Supra, pp. 35 et seq.
[74] Subcommittee hearings, p. 8.
[75] Ibid., p. 17.

at a good job."[76] The witness was discussing the advantage of highway transportation in carrying out a policy of full employment. It is agreed generally, however, that the availability of manpower fixes the limit to which defense production can be expanded in the present emergency. In our present preparedness program the railroads are inherently well-qualified to perform a vital role.

In spite of the crucial importance of rail transportation, both in war and in peace, railroads have occupied a precarious financial position over the past score of years. The railroad industry stands virtually alone in its failure to share in the general postwar prosperity."[77] In recent years the earnings of class I railroads[78] have been insufficient to enable them to acquire the equity capital needed for the modernization and expansion of their equipment and facilities. The fact that railroad earnings have been inadequate at a time when the volume of traffic has been at record peacetime levels indicates that even a mild recession might bankrupt the industry.

The inability of a vital segment of the transportation industry to maintain adequate earnings is the crux of the transportation problem. In this section of our report we have attempted to determine the cause of the railroads' financial distress and to suggest remedies which are consistent with the American system of private enterprise.

In the past 5 years the railroads have received a steadily declining share of the total freight and passenger traffic.[79] If this loss of traffic resulted from a more economical and efficient service provided by the railroads' competitors, we would not need to be unduly concerned about the railroads or their chances of survival. Presumably, the demonstrated superiority of other forms of transportation would provide the Nation with a transportation system adequate for the needs of its commerce, its postal service, and its defense. Sentimental attachment for the "iron horse" is not a sound basis for legislative action. We have found, however, that the poor financial condition of the railroads does not result from fair and free competition.

Four factors mainly have been responsible for the impoverishment of the railroads. First, competitors of the railroads are subject to a less restrictive type of regulation or exempted entirely from regulation. Second, the railroads have been prejudiced by the subsidization of many of their competitors. Third, railroads frequently have found it impossible to compete because, in the matter of rate determination, the exercise of managerial judgment and initiative has been curtailed unreasonably. Finally, the necessity and convenience provision of the law has been administered loosely, and as a result excessive facilities have been brought into existence through the issuance of excess certificates. Elsewhere in this report we have discussed in some detail these deviations from the national transportation policy.

There are other factors which influence the railroads' financial condition. We do not believe, however, that the financial difficulties of the railroads can be attributed to an unreasonably high level of rates, imprudent dividend policies, overcapitalization, lack of technological progress, poor management, or the absence of potential sources of equity capital. Some of our recommendations are designed

[76] Ibid., p. 896.
[77] Class I railroads are those which have gross operating revenues in excess of $1,000,000 a year. Tables 15 and 16.
[78] See table 3, appendix, which shows that the ratio of railroad net income to net worth is far below the ratio which prevails in manufacturing, mining, and retail industries.
[79] See tables 4, 5, and 6; charts 1 and 2, appendix.

to alleviate losses which result from specific types of traffic and from several provisions of Federal tax law which are particularly burdensome to the railroads. Such recommendations, however, are secondary in importance to those already outlined which seek to restore the railroads' financial health by providing an equitable regulatory and promotional framework for intercarrier competition.

A. RAILROAD REVENUES

Except for the war years, 1941 to 1945, the railroads' share of total freight traffic has shown a steady decline since 1926. In 1929 railroads moved 78.28 percent of the total freight traffic. By 1940 the railroads' percentage had dropped to 62.12 percent. Following the war their percentage of total freight traffic was 66.67 percent in 1947, 64.19 percent in 1948, and about 60 percent in 1949.[80]

The actual volume of freight handled by the railroads still exceeds prewar levels. The 1936–40 average of 339.3 billion revenue ton-miles per year rose to an average of 651 billion revenue ton-miles during the war (1941–45) but declined from a post-war peak of 654 billion ton-miles in 1947 to 637 billion in 1948, and only 526 billion in 1949.[81] The postwar decline in railroad-freight traffic, both in volume and percentagewise, has been matched by increases in the volume and percentage of freight carrier by motor and water carriers.[82]

The decline in the volume and percentage of passenger traffic carried by the railroads has been even sharper. The railroads' share of commercial intercity passenger traffic [83] dropped from 75.2 percent in 1926, to 61.5 percent in 1940. Following a war-generated increase in passenger traffic, the railroads' share of total passenger traffic dropped from 58.5 percent in 1947 to 56.3 percent in 1948 and 54 percent in 1949.[84] There has been a corresponding annual decline in the actual number of railroad passenger-miles.[85] At a time when railroad-passenger traffic has slumped both quantitatively and relatively, the passenger traffic of busses and airlines has increased steadily.[86]

While the figures showing the decline in freight tonnage handled by the railroads are alarming, they do not tell the whole story. There has been an even greater decline in tonnage hauled by the railroads in the high-rate commodity classification groups. The shift in railroad traffic from the high-rate to the lower bulk-rate classifications, together with the probable cause of that diversion, is discussed later in this report.[87] It seems clear, however, that any further decline in railroad traffic will lead to insolvency for most of the industry.

When the revenues of any industry are being impaired by a declining volume of business, it is pertinent to ask whether inadequate volume is due to unreasonably high prices. Over-all transportation rates are not excessive. Freight charges constitute a relatively small and decreasing portion of national income.[88] In 1946, total rail freight

[80] See tables 4 and 7.
[81] Table IV, p. 19, subcommittee hearings. Attention is invited to the fact that table 4 of footnote above refers to ton-miles for the Nation and p. 19 refers only to revenue ton-miles for class I railroads.
[82] See table 4.
[83] Subcommittee hearings, table III, p. 14.
[84] In comparing all intercity passenger movements on a national scale (not only commercial) a different picture is apparent. See tables 5 and 8.
[85] Subcommittee hearings, table III, p. 14.
[86] Ibid.
[87] Infra, p. 69.
[88] In 1946 and 1947, the income of class I railroads accounted, respectively, for only 3.01 percent and 2.89 percent of the total national income. I. C. C. Monthly Comment on Transportation Statistics, March 1948, p. 6.

at a good job." [76] The witness was discussing the advantage of highway transportation in carrying out a policy of full employment. It is agreed generally, however, that the availability of manpower fixes the limit to which defense production can be expanded in the present emergency. In our present preparedness program the railroads are inherently well-qualified to perform a vital role.

In spite of the crucial importance of rail transportation, both in war and in peace, railroads have occupied a precarious financial position over the past score of years. The railroad industry stands virtually alone in its failure to share in the general postwar prosperity." [77] In recent years the earnings of class I railroads [78] have been insufficient to enable them to acquire the equity capital needed for the modernization and expansion of their equipment and facilities. The fact that railroad earnings have been inadequate at a time when the volume of traffic has been at record peacetime levels indicates that even a mild recession might bankrupt the industry.

The inability of a vital segment of the transportation industry to maintain adequate earnings is the crux of the transportation problem. In this section of our report we have attempted to determine the cause of the railroads' financial distress and to suggest remedies which are consistent with the American system of private enterprise.

In the past 5 years the railroads have received a steadily declining share of the total freight and passenger traffic.[79] If this loss of traffic resulted from a more economical and efficient service provided by the railroads' competitors, we would not need to be unduly concerned about the railroads or their chances of survival. Presumably, the demonstrated superiority of other forms of transportation would provide the Nation with a transportation system adequate for the needs of its commerce, its postal service, and its defense. Sentimental attachment for the "iron horse" is not a sound basis for legislative action. We have found, however, that the poor financial condition of the railroads does not result from fair and free competition.

Four factors mainly have been responsible for the impoverishment of the railroads. First, competitors of the railroads are subject to a less restrictive type of regulation or exempted entirely from regulation. Second, the railroads have been prejudiced by the subsidization of many of their competitors. Third, railroads frequently have found it impossible to compete because, in the matter of rate determination, the exercise of managerial judgment and initiative has been curtailed unreasonably. Finally, the necessity and convenience provision of the law has been administered loosely, and as a result excessive facilities have been brought into existence through the issuance of excess certificates. Elsewhere in this report we have discussed in some detail these deviations from the national transportation policy.

There are other factors which influence the railroads' financial condition. We do not believe, however, that the financial difficulties of the railroads can be attributed to an unreasonably high level of rates, imprudent dividend policies, overcapitalization, lack of technological progress, poor management, or the absence of potential sources of equity capital. Some of our recommendations are designed

[76] Ibid., p. 896.

[77] Class I railroads are those which have gross operating revenues in excess of $1,000,000 a year. Tables 15 and 16.

[78] See table 3, appendix, which shows that the ratio of railroad net income to net worth is far below the ratio which prevails in manufacturing, mining, and retail industries.

[79] See tables 4, 5, and 6; charts 1 and 2, appendix.

to alleviate losses which result from specific types of traffic and from several provisions of Federal tax law which are particularly burdensome to the railroads. Such recommendations, however, are secondary in importance to those already outlined which seek to restore the railroads' financial health by providing an equitable regulatory and promotional framework for intercarrier competition.

A. RAILROAD REVENUES

Except for the war years, 1941 to 1945, the railroads' share of total freight traffic has shown a steady decline since 1926. In 1929 railroads moved 78.28 percent of the total freight traffic. By 1940 the railroads' percentage had dropped to 62.12 percent. Following the war their percentage of total freight traffic was 66.67 percent in 1947, 64.19 percent in 1948, and about 60 percent in 1949.[80]

The actual volume of freight handled by the railroads still exceeds prewar levels. The 1936–40 average of 339.3 billion revenue ton-miles per year rose to an average of 651 billion revenue ton-miles during the war (1941–45) but declined from a post-war peak of 654 billion ton-miles in 1947 to 637 billion in 1948, and only 526 billion in 1949.[81] The postwar decline in railroad-freight traffic, both in volume and percentagewise, has been matched by increases in the volume and percentage of freight carrier by motor and water carriers.[82]

The decline in the volume and percentage of passenger traffic carried by the railroads has been even sharper. The railroads' share of commercial intercity passenger traffic [83] dropped from 75.2 percent in 1926, to 61.5 percent in 1940. Following a war-generated increase in passenger traffic, the railroads' share of total passenger traffic dropped from 58.5 percent in 1947 to 56.3 percent in 1948 and 54 percent in 1949.[84] There has been a corresponding annual decline in the actual number of railroad passenger-miles.[85] At a time when railroad-passenger traffic has slumped both quantitatively and relatively, the passenger traffic of busses and airlines has increased steadily.[86]

While the figures showing the decline in freight tonnage handled by the railroads are alarming, they do not tell the whole story. There has been an even greater decline in tonnage hauled by the railroads in the high-rate commodity classification groups. The shift in railroad traffic from the high-rate to the lower bulk-rate classifications, together with the probable cause of that diversion, is discussed later in this report.[87] It seems clear, however, that any further decline in railroad traffic will lead to insolvency for most of the industry.

When the revenues of any industry are being impaired by a declining volume of business, it is pertinent to ask whether inadequate volume is due to unreasonably high prices. Over-all transportation rates are not excessive. Freight charges constitute a relatively small and decreasing portion of national income.[88] In 1946, total rail freight

[80] See tables 4 and 7.
[81] Table IV, p. 19, subcommittee hearings. Attention is invited to the fact that table 4 of footnote above refers to ton-miles for the Nation and p. 19 refers only to revenue ton-miles for class I railroads.
[82] See table 4.
[83] Subcommittee hearings, table III, p. 14.
[84] In comparing all intercity passenger movements on a national scale (not only commercial) a different picture is apparent. See tables 5 and 8.
[85] Subcommittee hearings, table III, p. 14.
[86] Ibid.
[87] Infra, p. 69.
[88] In 1946 and 1947, the income of class I railroads accounted, respectively, for only 3.01 percent and 2.89 percent of the total national income. I. C. C. Monthly Comment on Transportation Statistics, March 1948, p. 6.

charges amounted to only 5.46 percent of the wholesale prices of commodities transported by rail, as compared with 8.4 percent in 1939.[89] These facts disprove the popular notion that rail transportation costs over the past decade have taken an increasingly large bite out of the commodity price dollar. Although transportation charges have increased in absolute amount, the proportion of such charges to the total value of commodities transported has actually decreased by almost half.

There is another method by which the inadequacy of railroad revenues may be proved. Average revenue per ton-mile, which was 1.149 cents for the period 1921–25, declined until the postwar years. Average revenue per ton-mile rose to 1.251 cents in 1948 and 1.340 cents in 1949. In terms of the value of 1935–39 dollars, however, average revenue per ton-mile for the years 1946–49, inclusive, has been far below that of any year since 1921.[90] Average revenue per passenger-mile has followed the same trend.[91] In short, transportation revenues have lagged far behind increases in prices and wages generally.

B. RAILROAD EXPENSES

The railroads' diminishing share of freight and passenger traffic has been accompanied by substantial increases in operating expenses. Wages of railroad employees have increased from an average of 74 cents per hour in 1939, to $1.57 in 1949.[92] Although the number of railroad employees has been reduced by 16 percent since 1945, wage payments in 1947 were 13 percent greater than in 1945.[93]

The prices of railroad materials and supplies nearly have doubled in the past 10 years.[94] Although the cost of materials and supplies dropped slightly in 1949, it is probable that the cost has now reached an all-time high.

Taxes represent the third major operating expense. Average taxes (exclusive of excise taxes) were more than twice as much during 1946–49 than in any comparable prewar period. Average taxes for the years 1946–49 were $823,939,881, as compared with the wartime (1941–45) average of $1,252,962,756.[95] The ratio of taxes to net operating revenue, however, was greater in 1949—49.31 cents per dollar. This is greater than during World War II when the average ratio was 48.3 cents per dollar.[96] In 1949, therefore, about 50 cents of every dollar which the railroads received after payment of operating expenses was paid to the tax collector.

The effect of soaring operating expenses and a declining volume of traffic has been minimized only slightly by increases in transportation charges. Authorized increases in freight rates, for example, have amounted to only 57.3 percent over the rates in effect on June 30, 1946. The actual increase is considerably less because of adjustments to meet competition and the failure of any States to allow rate increases on intrastate traffic.[97] Also, there have been long and costly delays

[89] Freight Revenue and Wholesale Value of Commodities Transported on Class I Steam Railroads in the United States, Calendar Year 1946, I. C. C. Statement No. 4823, issued 1948, p. 5.
[90] Subcommittee hearings, table XXII, p. 68.
[91] Ibid.
[92] This increase, although greater than the increase in the Consumer's Price Index, is somewhat less than that experienced by employees in other transportation fields. See table 9, chart 3.
[93] Ibid.
[94] Subcommittee hearings, p. 61, table XIX.
[95] See table 10.
[96] Subcommittee hearings, p. 66, table XXI.
[97] Ibid., pp. 66 and 67.

between increases in wages, and other operating expenses and final Commission authorization for higher rates to partially offset those increases.

An analysis of spiraling operating expenses in conjunction with declining revenues produces numerous danger signals. Net railway operating income in 1949 was $315,000,000, or 31.5 percent less than in 1948.[98] The net railway operating income of $686,000,000 in 1949 was only about $100,000,000 greater than the annual average for the period 1936–40, and about $230,000,000 above the average of 1931–35.[99] Since railroads do not operate with a common purse, many of them sustained net operating losses. Low earnings during a period of general economic depression are understandable, but consistently low earnings in a generally prosperous time are the almost certain signs of a sick industry.[1] The plight of the railroads is accentuated by the fact that net railway operating income (adjusted to 1935–39 dollars) was less in 1949 than the income (adjusted) of every year since 1921, except two.[2]

Caught in the vise between higher operating expenses and diminishing revenues are the railroads' stockholders, bondholders, and customers. The narrow margin between gross operating revenues and operating expenses (and taxes) must produce funds for expansion and improvement of facilities and payment of dividends [3] and fixed charges. This margin was 13.4 cents for the period 1931–35; 14.5 cents for the period 1936–40; and 14.4 cents in the war years 1941–45. In 1949, however, there remained only 8 cents of each dollar of gross operating revenue after payment of operating expenses and taxes.[4] In view of the fact that it takes $2.64 of investment to produce $1 of annual net operating revenue,[5] it is plain that the railroads as a whole are rapidly approaching disaster. To be on safe ground, railroads should be earning a return on their investment comparable to that of the 1926–30 period, or 4.76 percent. To do this, however, railroads somehow must attain a net income of $734,000,000 greater than their net income for 1949.[6]

C. OPERATING AND MANAGERIAL EFFICIENCY

In spite of inadequate earnings for many years, the railroads have carried out an ambitious capital-improvement program. Since 1921, railroads have spent $17,000,000,000 in capital expenditures to expand and improve equipment and roadways. In 1948 and 1949, capital expenditures exceeded $1,250,000,000—higher than any year since 1921.[7] The railroads realize that this extensive program of capital improvement must be continued both in the interest of an adequate capacity and of increased operating economy and efficiency.

The unhealthy financial condition of the railroads has not been caused by any lack of technological progress. The development of the coded track circuit has enabled traffic control to be centralized

[98] Subcommittee hearings, p. 26, table VI.
[99] Ibid. p. 27, table VII.
[1] See table 11.
[2] 1932 and 1938 (subcommittee hearings, p. 74, table XXIII).
[3] See table 11.
[4] Subcommittee hearings, p. 34.
[5] Ibid. p. 35.
[6] Ibid. p. 74.
[7] Ibid., p. 41, table XII.

to such an extent that a single track can now carry almost as much traffic as a double-track line.[8] The service life of steel rail has been increased by 50 percent and the life of cross ties by 300 percent. The tremendous growth in dieselization perhaps is the most important sign of technological progress. Diesel power which moved only 5.2 percent of passenger-train car-miles and 0.05 percent of freight in 1940 is now used in 49.3 percent of passenger service and 34.9 percent of freight service.[9] Diesels can perform more work, more hours a day, operate over longer runs, and require less service than steam locomotives. As a result of this superior performance, 1,600 of the 1,615 power units which were on order on April 1, 1950, were Diesel units.[10]

Many people have been led to believe that the financial troubles of the railroad are due to poor management. All objective tests of operating efficiency refute the validity of this opinion. In virtually every element of performance—average freight-car-miles and net ton-miles per serviceable car-day, average net freight loads per car and per train, average passenger train speed, and utilization of passenger and freight locomotives—substantial gains in efficiency have been registered.[11] As a result of increased freight-car capacity and greater operating efficiency, railroads today are moving over 20 percent more ton-miles than they did 25 years ago when they had 30 percent more freight cars.[12]

Another criterion of railroad operating economy and efficiency is the comparison between current operating expenses per traffic unit and those of previous years. In 1941, average operating expenses were $6.86 per 1,000 traffic units. The corresponding figure for 1949 was $11.55. After allowing for increases in labor and material costs, however, the average of $11.55 represented an improvement over 1941 in the amount of $1.56 per 1,000 traffic units. Translating this saving in terms of total traffic units, the net saving in operating expenses over 1941 amounted to $930,000,000.[13] Without such savings—and assuming no change in revenues and expenditures were incurred—the railroads in 1949 would have incurred a net operating deficit of $244,000,000, and a net deficit of $492,000,000.

The subcommittee does not mean to imply that there is no room for improvement in the ingenuity and initiative of railway management. In our opinion, however, many of the deficiencies of which management has been accused stem from the atrophy of managerial incentives caused by the tendency of the Interstate Commerce Commission to substitute its own judgment for that of management.[14]

D. RAILROAD CAPITALIZATION

The idea that the financial woes of the railroads have been caused by overcapitalization is fallacious. The railroads value their investment, after allowance for accrued depreciation, at about $24,000,000,000. The Interstate Commerce Commission estimates the value of net investment at $21,000,000,000.[15] We believe that a total capitaliza-

[8] Ibid., p. 54.
[9] Ibid., p. 53, chart E.
[10] Ibid., p. 582.
[11] Ibid., p. 51, table XV.
[12] Ibid., pp. 569, 570.
[13] Ibid., p. 55, table XVI.
[14] Infra., p. 61 ff.
[15] Subcommittee hearings, p. 43.

tion of $21,000,000,000 seems reasonable. Since the total amount of railroad funded debt was reduced from the 1932 peak of $11,800,000,000 to $8,600,000,000 in 1948,[16] the ratio of interest on funded debt to total operating expenses was lower in 1948 and 1949 than for any year since 1921.[17]

E. HEAD-END LOSSES

Except for the war years 1942 to 1945, inclusive, the railroads have conducted passenger-train service at a net operating deficit every year since 1936.[18] The amount of loss from passenger services has been growing at a rapid pace. From 1936 through 1940, the net railway operating deficit from passenger service held fairly steady around $250,000,000 a year. The deficit, however, reached $559,782,240 in 1948, and about $649,000,000 in 1949. The 1950 passenger-train deficit is expected to be about the same as 1949. The significance of heavy passenger service losses is best shown by the fact that if the railroads had broken even on passenger traffic in 1949, they would have made a return on their investment approaching that of the period 1926–30 (4.76 percent). While a return of 4.76 percent on investment is small, even compared with that received by public utility corporations, it would remove an immediate threat to the future of the railroads.[19]

The Interstate Commerce Commission recently estimated that about two-thirds of the total passenger service deficit in 1948 was attributable to head-end traffic.[20] Although such traffic does not include the carriage of passengers, it is carried in the forward cars or "head-end" of passenger trains. The major items of head-end traffic are United States mail,[21] express, baggage, and milk. Losses in the transportation of property in passenger trains must be curtailed unless the Nation is ready to accept wholesale abandonment of train passenger service. Inasmuch as large-scale troop movements require the maintenance of rail passenger facilities close to present levels, abandonment clearly is not the proper solution.

F. LOSSES IN THE TRANSPORTATION OF MAIL

Railroads are losing money on their mail carriage business.[22] The subcommittee has found no accurate statistical determination of the deficit which is attributable to each type of head-end traffic. The difficulty of making a reasonably accurate estimate stems from the fact that figures on head-end car-miles are not divided as between mail, express, and baggage and milk "primarily because all three types of traffic are often carried in the same car."[23] Moreover, even if the problem of apportioning head-end car-miles could be solved, it would be difficult to reconstruct a proper allocation of expenses

[16] Ibid., pp. 44 and 45, chart C–2.
[17] Ibid., p. 46, table XIII.
[18] Statistics for prior years are not available because the ICC apportionment of operating expenses and taxes between freight and passenger service covered only the years 1936–48. *Ex Parte 168*, decided August 2, 1949.
[19] See table 10, appendix.
[20] *Ex parte 168*, decided August 2, 1949.
[21] Mail pay received by class I railroads amounted to $170,181,620 in 1947, and $199,939,409 in 1948. See table 12.
[22] By way of contrast, the airlines have been receiving twice as much mail pay for carrying one-tenth of the poundage of first-class intercity mail (plus air parcel post) as the railroads receive for carrying the other nine-tenths of this mail. Subcommittee hearings, p. 120.
[23] Subcommittee hearings, p. 1481.

among the various types of head-end traffic for past years.[24] There is general agreement, however, that the railroads lose money in carrying mail and that the loss is substantial.

At the outset it is important to observe that even the formula for determining the profit or loss as between freight and passenger service involves a considerable amount of discretion. For example, the apportionment expenses which are common to both freight and passenger service are based on the best judgment of the Interstate Commerce Commission. In breaking down the $649,000,000 passenger-train service deficit for 1949 as between head-end service and all other passenger-train service, it is impossible to avoid the elements of discretion involved in making the apportionment. The Interstate Commerce Commission described its own method of apportionment merely as furnishing "a rough idea."[25] Nevertheless, several witnesses attempted to calculate the amount of mail transportation loss involved in the total 1949 head-end loss of $399,000,000. Estimates of the loss incurred during 1949 in carrying mail ranged from $20,000,000 to $200,000,000.[26] The witness, however, who estimated a $20,000,000 loss for 1949, submitted a revised estimate fixing the loss as $117,000,000.[27] Although the subcommittee is unable to express an opinion with respect to the amount of railroad mail loss—other than that the loss is substantial—we believe that losses incurred by the railroads in carrying mail are wholly unjustifiable.

The last permanent railroad mail rate was set in 1928. On four occasions since February 1947, railroads have petitioned the Interstate Commerce Commission for increases in railway mail-pay rates in the aggregate amount of 95 percent.

On December 4, 1947, the Commission authorized an interim increase of 25 percent retroactive to February 19, 1947. Since that increase became effective, the cost of transporting mail has increased more than 25 percent, with the result that current mail transportation losses exceed those incurred prior to the 25-percent increase.[28] The Post Office Department and the railroads, however, recently negotiated a compromise mail-pay settlement, subject to ICC approval, for the period February 19, 1947, to December 31, 1950.[29] Under the terms of this settlement, the railroads were to receive an increase in mail rates of 49 percent over those prevailing prior to February 19, 1947. The railroads, however, received approximately $950,000,000 for transporting the mail during the period from February 19, 1947, to December 31, 1950,[30] when the Commission approved the 25-percent increase and authorized the Post Office Department to pay $152,000,000 in back mail pay.

Action by the ICC with reference to the proposed mail-pay settlement should not, of course, delay prompt consideration of the petition of mail-carrying railroads for an over-all 95-percent increase to be effective after December 31, 1950.[31] The subcommittee sympathizes

[24] Ibid., p. 1482.
[25] *Ex parte 168, 276 I. C. C.* 38.
[26] Subcommittee hearings, pp. 1096, 1427.
[27] Ibid., p. 1554.
[28] Ibid., p. 85.
[29] Postmaster General Jesse M. Donaldson's press release of September 24, 1950.
[30] The railroads would have received approximately $1,090,000,000 if their four petitions had been granted in full and the increases made retroactive to the filing dates of the petitions, *Railway Mail Pay No. 9200*, I. C. C.
[31] Hearings were held by the ICC on proposed agreements between the Post Office Department and the railroads, modifying present methods of computing mail pay. The practical effect of these proposals increased present rates by approximately 19 percent, or $152,000,000, approved December 8, 1950, *Rail Mail Pay No. 9200*. Hearings were held open to determine the rates after January 1, 1951.

with the predicament of the Postmaster General who, while aware that present railway-mail rates are not compensatory,[32] is faced with a large and growing deficit in the operations of his Department. The subcommittee also is aware of the manifold pressures which resist any proposed increase in postal rates for second-class and third-class mail which contribute heavily to the Post Office deficit. The Hoover Commission estimated that in the fiscal year 1948, second-class mail (periodical publications) and third-class mail (miscellaneous printed and other mailable matter not exceeding eight ounces in weight) were handled at a loss of $187,000,000.[33] The loss to the Department in handling such mail is expected to be considerably higher for fiscal 1951. Whether or not the dissemination of information contained in second-class and third-class mail matter should be encouraged through noncompensatory postal rates is a question outside the jurisdiction of the Senate Interstate and Foreign Commerce Committee. We are convinced, however, that the full cost of any such policy should be borne by the Federal Government and not by the railroads in the form of deficit-creating traffic.

No one has a greater interest than the Federal Government in maintaining the passenger-train facilities of the railroads close to existing levels. The experience of two wars is sufficient proof that passenger-train service is essential to troop transport. The railroads cannot be expected to incur passenger service deficits year after year, even though in so doing they provide our Government with a transportation pool which is vital to its security. The least that the Federal Government can do is to make certain that its own action does not weaken the service on which its military strength depends. In these circumstances it might be expected that any doubts concerning the reasonableness of rates for the transportation of United States mails would be resolved in favor of the railroads.

Section 321 (a) of the Transportation Act of 1940 provides in pertinent part as follows:

> * * * and the rate determined by the Interstate Commerce Commission as reasonable therefor shall be paid for the transportation by railroad of the United States mail: *Provided, however,* That any carrier by railroad and the United States may enter into contracts for the transportation of the United States mail for less than such rate * * *.[34]

In the opinion of the subcommittee a "reasonable" rate for mail-transportation service means a rate high enough to yield a reasonable profit on mail-carriage business. To the best of our knowledge the Interstate Commerce Commission has not announced any contrary interpretation. Inasmuch as petitions for increase in mail rates are now pending before the Commission, legislative action at this time would be premature.

In the event that action taken by the Interstate Commerce Commission in pending mail-rate determination cases does not result in a rate which is fully compensatory to mail carrying railroads, Congress should amend section 321 (a) of the Transportation Act of 1940 to provide for compensation for the transportation of mail sufficient to cover all costs which may be attributed fairly to such transportation, plus a reasonable profit.

---

[32] An extensive and detailed cost study, based on data collected in 1948, a project jointly participated in by the railroads and the Post Office Department, shows that fully allocated costs of performing mail-transportation services greatly exceed the revenues therefrom. See Cole study.

[33] Report of the Hoover Commission on the Post Office, March 1949, p. 5.

[34] 54 Stat. 954, 49 U. S. C., sec. 66.

(1) Railway express losses

Another major source of head-end traffic loss is railway exress service. This service is rendered by the Railway Express Agency, a wholly owned arm of the railroad industry. Revenues of the Railway Express Agency have been declining at an alarming rate. As a result, the Railway Express Agency has been unable to pay the railroads anything approaching the cost of the express service. As in the case of mail losses, no accurate determination has been made with regard to how much of the total head-end loss ($399,000,000 in 1949) is attributable to railway express service.[35]

The decline in the volume and revenue of railway express is due to the subsidized parcel-post service of the Post Office Department. Within a wide range of size and weight limits,[36] many packages may be handled either as parcel post or as railway express. The Railway Express Agency, however, cannot compete for this traffic because parcel-post rates are not compensatory. The Hoover Commission estimated that the Post Office lost over $70,000,000 on parcel-post (fourth-class) mail in the fiscal year 1948.[37] The diversion of traffic from railway express service, as the result of noncompensatory parcel-post rates, has a double-barreled effect on railroad revenues. Because of inadequate mail rates, the railroads not only sustain a loss on the operations of the Railway Express Agency, but also on their traffic which is diverted.

In the opinion of the subcommittee there is no justification for the action of the Government in subsidizing its own parcel-post service in competition with private railway express service. A subsidized Government transportation service in competition with a nonsubsidized private service cannot be squared with the declared national transportation policy. In addition, the deficit which stems from railway express service has the same harmful effect on the national defense as other types of passenger-train service deficits. The Postmaster General and the Interstate Commerce Commission should take immediate action looking toward an increase in parcel-post rates to compensatory levels.

In testimony before this subcommittee several railway executives recommended passage of bills then pending in Congress [38] to increase parcel-post rates.[39] Generally, it is not recognized that Congress has adopted any policy of subsidizing users of parcel-post service. While Congress has fixed postal rates for first-, second-, and third-class mail, parcel-post rates have not been frozen by law. The Postmaster General already has the power, "subject to the approval of the Interstate Commerce Commission, after investigation," to establish rates for parcel-post mail. In commenting on the failure of the Postmaster General to utilize this power, the Hoover Commission task force which investigated the Post Office said:

> However, because of the long delay which occurred in securing final approval by the Interstate Commerce Commission of a change in [parcel post] rates, the Department has preferred to make such recommendations as it initiates direct to the Congress".[40]

[35] See p. 51, supra.
[36] Since 1913, the weight limit of parcel post has been increased from 11 to 70 pounds and the size from 72 to 100 inches.
[37] Report of the Hoover Commission on the Post Office, op. c. t.
[38] H. R. 2945, 81st Cong., 1st sess.
[39] Subcommittee hearings, p. 1429.
[40] Task Force Report on the Post Office (appendix I), January 1949, p. 28.

In the opinion of the subcommittee the existing law concerning parcel-post rates is superior to legislative rate making. If, however, existing parcel-post rates are not revised by administrative action, we urge that the Senate Interstate and Foreign Commerce Committee support legislation placing parcel-post rates on a compensatory basis.

The subcommittee is much disturbed by the prolonged delays which seem to attend almost every proceeding before the Interstate Commerce Commission. In many mail-rate determination and rate-regulation cases, the time-consuming procedure of the Commission has had the practical effect of impairing the financial condition of the railroads. Questions of administrative reform have not been included within the scope of our investigation. We respectfully suggest to the Commission, however, that the problems connected with streamlining its procedure will not prove to be insoluble if the relationship between railroad finance and the national defense constantly is kept in mind.

(2) Baggage losses

The third type of head-end loss incurred by the railroads arises out of the handling of baggage and milk in passenger cars.[41] The railroads provide baggage agents, equipment for the handling of trunks, and reserve valuable space to satisfy a decreasing demand for checked baggage service.[42] In view of the tendency of an increasing number of travelers to rely on hand luggage, it is possible that some savings could be made by moving baggage in freight cars. Baggage head-end losses, however, appear to be considerably less than those experienced by the railroads in carrying mail and express. In view of the fact that very little testimony was offered on baggage losses, we do not think it advisable to enter any recommendation of this subject.

G. LOSSES INCURRED IN THE CARRIAGE OF PASSENGERS

Only $250,000,000 out of a total $649,000,000 passenger-train service loss in 1949 resulted from the carriage of passengers and related service. Elimination of passenger losses would benefit the railroads and would improve defense transportation facilities. Shippers of freight would also benefit to the extent that freight rates would not have to be calculated with a view toward absorbing such losses.

Mr. John R. Turney, testifying for the National Bus Traffic Association, recommended that the railroads discontinue a large part of their present passenger-train service.[43] Mr. Turney contended that the elimination of all nonprofitable passenger-train service would increase net operating income in the amount of current passenger-train losses and give the railroads an adequate return on their freight operations. The subcommittee does not agree with that proposal even on the assumption that passenger-train losses are incurable.

It may be assumed that the ICC apportionment of revenues and expenses as between freight and passenger service is reasonably accurate. The fact that the method of apportionment, prescribed by the Commission, revealed a loss of $649,000,000 in 1949 from all rail passenger-train services does not mean, however, that that

[41] Railroad accounts treat baggage and milk as a single item.
[42] Subcommittee hearings, pp. 1094 and 1554.
[43] Ibid., p. 1101.

amount would have been saved if the railroads had not operated all unprofitable passenger-train service.

Mr. F. G. Gurley, president of the Santa Fe Railway System, pointed out that the Santa Fe has 500 one-man stations where a portion of the salary of one man is allocated to both frieght and passenger service.[44] Discontinuance of passenger service would not, of course, reduce the salary of those men nor would it reduce the heat and light bills of the stations involved.

A widespread reduction in passenger-train service would cut passenger losses by shifting items of expense now allocated to passenger service over to freight service. The financial condition of the railroads would not be improved. Since the continuation of adequate passenger-train service is vital to the national defense, some solution for the consistent losses incurred must be found. Instead of drifting toward an eventual choice between the twin evils of nationalization or subsidization, the subcommittee suggests as a more practical remedy implementation of the existing statement of national transportation policy.

(1) Abandonment losses

Some passenger-train operations, particularly those of branch lines, have proved to be so unproductive that there is no possibility that they can every be conducted at a profit. Although railroad management has been criticized for not ridding itself of unprofitable passenger-train service,[45] the right to abandon branch lines operated in intrastate commerce is controlled by State regulatory bodies. The amount of passenger-train service for which abandonment is, or may be, the only practical solution is not large in comparison with total rail passenger service. The inability of the railroads promptly to discontinue passenger-train service which is hopelessly unprofitable has resulted in heavy losses.

The testimony of Mr. C. M. Davis, president, Atlantic Coast Line Railroad Co., explains the extent and the cause of losses attributable to consistently unremunerative passenger service.[46] Mr. Davis pointed out that his company in the 3½-year period from January 1, 1947, to June 30, 1950, filed 17 applications with 6 State commissions asking the right to withdraw unprofitable passenger-train service. The aggregate elapsed time between applications and hearings was over 4½ years, during which time Atlantic Coast Line lost $782,000 on the service it was seeking to abandon.[47] Between the dates of hearings and the dates of decisions, the loss of Atlantic Coast Line on the passenger trains involved in those cases was estimated at $543,000.[48] In the elapsed time from the dates of the decisions to actual withdrawal of service (or to June 30, 1950, in cases where applications were denied), the loss suffered by Atlantic Coast Line was estimated at $830,000.[49] In summary, the abandonment procedure followed by Atlantic Coast Line on 17 applications during a 3½-year period consumed an aggregated elapsed time of 13 years 1 month and 28 days during which period the railroad lost approximately $2,160,000 on the passenger service involved.[50] A considerable part of

[44] Subcommittee hearings, p. 1415.
[45] Ibid., p. 1101.
[46] Ibid., pp. 1443–1448.
[47] Ibid., pp. 1453–1454, statements Nos. 7 and 8.
[48] Ibid.
[49] Ibid.
[50] Ibid., p. 1443.

the unprofitable service involved in those applications continues to be performed at a substantial loss.

Perhaps the best illustration of the hardships which the railroads suffer by reason of the abandonment policies of State regulatory bodies is the experience of Clinchfield Railroad in which Atlantic Coast Line has a one-half leasehold interest. Mr. Davis testified:

> Clinchfield Railroad operates daily passenger-train service between Elkhorn City, Ky., and Spartanburg, S. C. The deficit resulting from such operation in 1948 was $206,344, and ratio of expense to revenue 256.06.
>
> * * * * * * *
>
> That was in 1948. In 1949, the deficit was $266,803, and the ratio of expenses to revenues 322.55.
>
> In July Clinchfield Railroad sought relief from a portion of the burden of these deficits through reducing the service from daily service in each direction (14 trips per week) to triweekly service (6 trips per week). Although the trains in question are definitely interstate trains, it was necessary for Clinchfield to seek authority from no less than five State commissions for this reduction in service, namely, the State commissions of Kentucky, Tennessee, Virginia, North Carolina, and South Carolina, because the trains operate through each one of those States.
>
> Authority for the reduction in service was promptly granted by the State commissions of Kentucky, Virginia, and Tennessee, and effective December 27, 1949, the service between Elkhorn City, Ky., and Erwin, Tenn., was reduced to three trains weekly in each direction. In the absence of appropriate authority from North Carolina and South Carolina commissions, Clinchfield necessarily has continued to operate one passenger train daily in each direction between Erwin, Tenn., and Spartanburg, S. C. Although hearing on the Clinchfield application to the South Carolina commission was held October 25, 1949, no action has yet been taken by that commission. The North Carolina commission, on July 7, 1949, denied the Clinchfield application by a vote of 3 to 2. * * *[51]

The Interstate Commerce Commission has no jurisdiction with regard to the abandonment of local passenger trains operating in intrastate commerce.[52] Most of the incurable passenger-train losses are those of branch lines. The proviso of section 1 (17) (a) of the Interstate Commerce Act.,[53] reads:

> *Provided, however*, That nothing in this part shall impair or affect the right of a State, in the exercise of its police power, to require just and reasonable freight and passenger service for intrastate business. * * *[54]

There has been a natural reluctance on the part of many State commissions to authorize abandonment of intrastate passenger service. They are subject to strong local pressures for continuation of service which benefits certain communities, even though it actually is subsidized by shippers generally.

In the opinion of the subcommittee, the difficulty in abandoning unprofitable branch-line passenger trains imposes a heavy burden on interstate commerce. The regulatory powers of the States over intrastate rates are limited by virtue of the power of the Interstate Commerce Commission to see that rates established by State commissions do not affect interstate commerce adversely.[55] In the interest of a truly national transportation policy, we believe that the Interstate

---

[51] Ibid., p. 1446.

[52] A certificate that public convenience and necessity will permit abandonment must be obtained from the ICC for the abandonment of interstate services (Interstate Commerce Act, sec. 1 (18), 49 Stat. 543).

[53] 49 Stat. 543.

[54] The action of a State in requiring passenger service which the railroad contends is unjust or unreasonable is subject to judicial review, but it is not reviewable by the ICC (subcommittee hearings, p. 306).

[55] Sec. 13 (4) of the Interstate Commerce Act provides that whenever the ICC finds "that any * * * rate [imposed by authority of any State] * * * causes any undue, unreasonable, or unjust discrimination against interstate or foreign commerce * * * it shall prescribe the rate. * * *"

Commerce Commission should be granted comparable powers with respect to abandonment of intrastate passenger-train service.

We do not regard this suggestion as an intrusion upon the historic rights of the States. The Constitution gives Congress plenary powers over interstate commerce. The Supreme Court long ago upheld the constitutionality of the provision which gives the ICC power to set aside intrastate rates because of their effect on interstate commerce.[56] Rate-making powers are, of course, considerably more important than powers over the maintenance of service.

The subcommittee has heard no complaint about the authority which State commissions have with respect to the continuation or abandonment of intrastate rail freight service. For the present, at least, we believe that the States should retain their existing powers with regard to the abandonment of intrastate freight business. Many communities may well be dependent on rail freight service which has little or no chance of returning a profit. On the other hand, it is difficult to visualize any community which would not possess some practical alternative to intrastate rail passenger service.

(2) Commuter losses

The subcommittee has found that few if any railroads are, under present conditions, able to conduct commuter service except at a loss. Most of the leading "commuter carrying" railroads [57] are finding commutation service a source of heavy passenger losses.

Two factors have tended to aggravate commuter traffic losses. First, the extensive development of superhighways around metropolitan centers has diverted a considerable volume of business. In many cases it has been impossible to raise fares to the extent justified by the cost of the service because the availability of private automobiles fixes a practical ceiling on the amount which can be charged. Second, the recent development of suburban shopping centers has worked a corresponding reduction in traffic. In cases where fares can be increased without undue loss of business, the railroads have experienced long and costly delays on the part of State commissions, and bitter opposition from the riding public.

In such circumstances, the consistent losses incurred in commuter traffic can only result in eventual abandonment of the service. It is obvious, of course, that a widespread reduction in commuter service would work substantial hardships. If there is any practical remedy for heavy losses in commuter service other than abandonment, it will have to be devised through the joint efforts of the railroads and local governments. The subcommittee has no suggestions to offer except that local governments might find the continuation of commuter passenger service important enough to warrant more liberal tax and rate treatment. It is doubtful, however, that any solution other than abandonment can be found unless the public is made more fully acquainted with the financial factors involved in commuter service.

The general public does not understand why trains carrying as many as 600 passengers at 1½ cents per mile—gross revenue of $9 a train-mile—do not yield a profit, particularly if the service is substandard. The answer, of course, is that on a haul of 10 to 30 miles the railroad

[56] *Wisconsin Railroad Commission* v. *C. B. & Q. Railroad Co.*, 257 U. S. 563; *N. Y.* v. *U. S.*, 257 U. S. 591.

[57] A list of leading "commuter carrying railroads" according to their volume of traffic is as follows: Long Island, Illinois Central, Pennsylvania, New York Central, New Haven, Chicago & North Western, Lackawanna, Boston & Maine, Central of New Jersey, Reading, Erie, Rock Island, Southern Pacific.

incurs about the same expenses as it would for a 100-mile run. While the fuel cost may be somewhat less, the distance involved does not reduce the cost of terminal handling. In addition, equipment and crews must be kept available to handle traffic which is concentrated in the morning and evening rush-hour periods.

H. EFFECT OF FEDERAL TAXATION ON THE RAILROADS' FINANCIAL CONDITION AND THE NATIONAL TRANSPORTATION POLICY

Inadequate earnings in recent years have made it virtually impossible for the railroads to obtain equity capital. Except for a limited amount of money which can be borrowed on the security of new income-producing equipment, the railroads must rely on their earnings as the sole source of investment capital. Under the Revenue Act of 1950, the corporation income tax was increased from a total rate of 38 percent to a rate of 45 percent for 1951 and subsequent years.[58] A corporate tax rate of 45 percent means that a railroad must earn $1.82 in net income in order to have $1 available for improving and expanding its plant and facilities.

High corporation income taxes are a burden which railroads share with incorporated business generally. The railroads have not asked for favored treatment in the amount of corporation income taxes which they are required to pay, and we do not think they should be indirectly subsidized in any such manner. There are, however, two major provisions of the Federal revenue laws which place an unusual strain on railroad finances. Modification of these provisions is justified, we think, in order to carry out the national transportation policy. In addition, there are other provisions of the Internal Revenue Code which the railroads claim are particularly harsh or inequitable as applied to them.[59] The subcommittee does not feel competent at this time to pass on the merits of those proposals. We believe, however, that the Senate Interstate and Foreign Commerce Committee should study those tax proposals with a view toward supporting such changes as seem desirable before the congressional tax committees.

(1) *Transportation excise taxes*

The Association of American Railroads has urged repeal of the wartime transportation taxes before the appropriate committees of Congress. At the present time a tax of 15 percent is levied on passenger fares, a 3 percent tax on the transportation of freight, and a special tax of 4 cents per ton on the transportation of coal.[60] The subcommittee agrees with the statement of the Secretary of the Treasury before the House Ways and Means Committee that—

> The tax on transportation of property is almost entirely a cost of doing business. Excise taxes on business costs tend to be pyramided through successive markups by those handling goods in the various stages of production and distribution. The cost of living of all consumers is increased out of proportion to the tax imposed. In addition, the taxes thus added to the prices of goods and services generally are the most burdensome on lower-income groups.[61]

We recognize that the present and costly expansion of the national defense program makes repeal of the transportation excises impossible.

[58] Revenue Act of 1950, sec. 121.
[59] Subcommittee hearings, pp. 1160–1170.
[60] Internal Revenue Code, secs. 3469, 1650, and 3475.
[61] Subcommittee hearings, Revenue Revision of 1950, 81st Cong., 2d sess., reprinted in part in our record of hearings, p. 1158.

It is clear, however, that although transportation taxes are necessary for revenue purposes, they need not be, as they now are, discriminatory in their effect. They apply to for-hire carriage but are not assessed against transportation by private carriers. The railroads, common carriers, and contract motor carriers are placed at a serious disadvantage in competing for traffic which can be moved by private carriage. It is obvious that this sort of discrimination cannot be reconciled with the declared national transportation policy. A customer who receives a shipment via private carrier pays for the cost of transportation just as he does when delivery is effected by a for-hire carrier. The manufacturer who brings materials to his plant in his own trucks has a transportation cost which does not differ basically from the payment he would otherwise make to a for-hire carrier. Consideration should be given to the feasibility of extending transportation excise taxes to private carriage of an interstate commercial nature.

(2) Depreciation for Federal income tax purposes

The depreciation policies which are followed in regard to railroad equipment must be evaluated in the light of three important facts: (1) the poor earnings record of the railroads makes it difficult for them to obtain outside capital for the needed expansion and improvement of their facilities; (2) railroad net income must support a far greater capital investment than the amount of income of other businesses; and (3) the annual expenditures of the railroads for capital improvements and replacements are almost three times larger than annual depreciation accruals.[62] An unduly conservative depreciation policy has the practical effect of depressing current net income. The subcommittee does not believe that such a policy should be encouraged at a time when the Nation's mobilization effort seems to require an even larger capital expenditure program by the railroads.

Witnesses who testified on behalf of the railroads suggested revision in present depreciation rates.[63] Testifying for the Association of American Railroads, Mr. J. H. Parmelee expressed the opinion that depreciation rates "are quite low at the present time on the average".[64] For example, the average rate of depreciation on passenger-train cars is only 3.03 percent and on freight cars 3.23 percent.[65] Mr. Parmelee was unable to say, however, that depreciation rates overestimated the useful life of railroad equipment.[66] Section 20 (4) of the Interstate Commerce Act provides that the Commission shall prescribe "the rate or rates of depreciation which shall be charged." [67] The rate of depreciation prescribed by the ICC has no effect tax-wise, and is not necessarily followed by the Bureau of Internal Revenue for tax purposes.

Col. J. M. Johnson, Chairman, Interstate Commerce Commission, testified that the depreciation rate for freight cars was too low.[68] The subcommittee, however, did not receive sufficient evidence to enable it to reach a conclusion concerning the adequacy of depreciation allowances for railroad equipment generally. Representatives of the

[62] Subcommittee hearings, pp. 1150, 1151.
[63] Ibid., p. 43.
[64] Ibid., p. 42.
[65] See table 12, for average rates of depreciation on other railroad equipment.
[66] Subcommittee hearings, pp. 42, 43.
[67] 54 Stat. 917.
[68] Subcommittee hearings, p. 505.

Association of American Railroads did propose two plans for accelerated depreciation which seem to have considerable merit.

The proposals of the railroads for building up depreciation reserves were explained by Mr. Thomas L. Preston, general solicitor, Association of American Railroads.[69] The first proposal is to permit the railroads to depreciate 50 percent of the cost of the property over a period of 5 years. The remaining 50 percent of the cost would be depreciated at the rates now in effect. The subcommittee recognizes that the expansion of industry in general has been hampered by low rates of depreciation. As pointed out by the Joint Committee on the Economic Report "tax policy should permit depreciation over a shorter period of years to encourage replacement of outmoded equipment with newer cost-reducing equipment".[70] Capital expenditures required by the railroads are so much larger than for industry generally, and the earnings of the railroads are so low in comparision with other industries, that a special policy of depreciation accruals seems justified. We suggest that the Internal Revenue Code be amended to permit railroads to depreciate 50 percent of the cost of depreciable property within 60 months following acquisition.

The second proposal of the railroads is that they be given a tax deduction up to 25 percent of their income provided that the amount so deducted is placed in a reserve fund and used for capital expenditures. In effect, depreciation would be accelerated since the cost basis of the property would be reduced by the amount of expenditures from the reserve fund. Mr. William T. Faricy, president, Association of American Railroads, made it clear that this proposal, like the one previously discussed, involved tax deferment, rather than tax forgiveness or subsidy.[71] This subcommittee believes this proposal merits serious consideration.

In the opinion of the subcommittee, the accelerated amortization provisions of the Revenue Act of 1950 also provide the railroads some measure of relief. Section 218 of that act permits amortization over a period of 60 months of emergency facilities. Amortization is in lieu of depreciation. The railroads are so indispensable during war that most of their newly acquired equipment would seem to meet the statutory test of "necessary in the interest of national defense during the emergency."[72] The authority to certify the acquisition of facilities as being in the interest of national defense was delegated by the President to the chairman, National Security Resources Board by Executive Order 10172, dated October 12, 1950.

I. RAILROAD RATE MAKING

The fixing of railroad freight and passenger rates is an excellent example of the inflexibility of the administrative process of the regulatory law pertaining to transportation. Further, it affords an illustration of the intrusion of the regulatory body into the field of carrier management and, in effect, a substitution of the judgment of the Interstate Commerce Commission for the considered business judgment of those responsible for the financial well-being of the carrier to its stockholders.[73]

[69] Subcommittee hearings, pp. 1152, 1153.
[70] S. Rept. No. 1843, 81st Cong., 2d sess., p. 30.
[71] Subcommittee hearings, p. 586.
[72] Internal Revenue Code, sec. 124A.
[73] National Transportation Policy, op. cit., pp. 277–278.

(1) History of rate-making procedures

In the first instance, it must be emphasized that the historical background of the Commission's regulatory activity, with respect to rates, is colored strongly by the early monopoly of the railroads of the transportation business. It already has been pointed out that the first regulatory efforts of the Federal Government were punitive in character, aimed primarily at rate and service discrimination.[74] In 1906, however, Congress gave the Commission the power to prescribe maximum rail rates,[75] and 4 years later the Commission was further empowered to suspend new railroad rate schedules pending investigation by the Commission of the reasonableness of the proposed rates.[76]

In 1920 the Federal Government assumed the direct responsibility for establishing and periodically adjusting the general level of rail rates in line with the ability of shippers to pay, and the need of the carriers for a reasonable revenue return. Congress imposed upon the Commission the duty of fixing a fair return on the railroads' investment as a basis for a reasonable rate. Under this formula, according to representatives of the railroads, the years after 1920 and before 1933, when the law was again changed, were reasonably profitable ones for the rail carriers.[77]

In 1933 the Congress abandoned the idea of establishing a fixed fair return on investment as an expressed factor in the determination of rate structures.[78] The provision of the act pertaining to the rule of rate fixing was amended to read in part as follows:

> In the exercise of its power to prescribe just and reasonable rates the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic; to the need, in the public interest, of adequate and efficient railway transportation service at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable the carriers, under honest, economical, and efficient management, to provide such service.[79]

(2) The extent of the jurisdiction of the Commission

The Commission, since 1920, and particularly since 1933, has interpreted its responsibility for the maintenance of "just and reasonable" rates as a broad congressional mandate to protect both the rail carriers and the shipping public from policies of railroad management which are, in the opinion of the Commission, unwise or imprudent. The publication by the Brookings Institution, National Transportation Policy, by Charles L. Dearing and Wilfred Owen, which is based in part on a study made by the authors at the request of the Hoover Commission, criticizes the Commission for its assumption of the role of a superimposed board of directors, and cites several specific examples in illustration.[80]

In weighing the arguments for the allowance or disallowance of proposed rail rates, the Commission must include other factors than those considered by the railroad board of directors. The Commission is required by the Interstate Commerce Act to consider the declarations of national policy made by Congress as a preface to the act as well as the specific factors recited in the rate section, heretofore cited.[81]

---

[74] Ibid., pp. 167, 168.
[75] 34 Stat. L. 584 (1906).
[76] 36 Stat. L. 539 (1910).
[77] Subcommittee hearings, p. 275.
[78] Emergency Railroad Transportation Act of 1933.
[79] 49 U. S. C., sec. 15a (2).
[80] National Transportation Policy, op. cit., pp. 274–278.
[81] 49 U. S. C., sec. 15a (2).

The Commission constantly has disclaimed any intent to interfere in managerial function throughout the history of its obvious interference. It must be admitted that the task of drawing a line between those factors which are exclusively the consideration of management, and those which the Commission need consider is, at best, most difficult. But the actuality that businessmen must seek the approval of the Commission in matters of pure business discretion is entirely inconsistent with the idea of a free economy, even when regulated in the public interest.

The Commission has viewed with alarm any suggestions which would relieve them of their managerial burdens;[82] but if railroad management is to exercise its proper function it should be permitted to put into effect rate policies of its choosing, subject in the main only to proper safeguards against rates and practices which unjustly are discriminatory or unreasonable. The retention of these safeguards for the public interest have not been questioned. The authors of National Transportation Policy ascribe the desire of the Commission to retain rigid control over general rate cases to the policy of protecting both the railroads and the shipping public from the effects of intense competition in competitive traffic areas, and, in effect, to shift the railroad freight load from the competitive traffic to those commodity areas in which the railroads have relatively greater advantages.[83] This may reflect the Commission's interpretation of the declaration of policy's admonition regarding "inherent advantages," but, in the light of Government promotional and protectively regulatory activities with respect to competing carriers, discussed earlier in this report,[84] the Commission's position is questionable. Sound business practice, insofar as the railroads are concerned, obviously would call for increased revenue from the less competitive areas in order to meet competition in other areas. So long as the commission may protect the shipping public by sanctions against discriminatory or unreasonable rates, and the general public by establishing minimum rates to prevent unfair and destructive competition, its function has been carried out in protecting the public's interest.

(3) Administrative lag in rate increases cases

While the Commission steadfastly rejects any suggestion that it may have overreached itself in the consideration of factors relative to rate-making (which would seem to be more logically the proper concern of the railroad management),[85] it has recognized and tried to meet the increasingly serious problem of administrative lag within its own rate-making processes. The Commission specifically is authorized, on its own motion, to hold hearings on proposed rate schedules, in order to determine the lawfulness of the proposed rates,[86] and, on determination that the rates are unlawful, to prescribe lawful rates.[87] As a matter of practice, and regardless of the apparent clarity of the issues, railroad rate increase cases have been subject to

[82] "• • • our function is to become that of 'mere computers', a conclusion which we repudiated in Reduced Rates, 1922." Hearings on H. R. 2531 and 4862, 76th Cong., 1st sess., pt. 4, p. 1565.

[83] National Transportation Policy, op. cit., pp. 299–300.

[84] Supra, pp. 27 ff.

[85] We have often referred to the fact that we are not managers of the railroads and have taken the position that we ought not to interfere with those who are entrusted with management or matters which are not controlled by law but must be determined in the last analysis by wise administrative policy and judgment. That is still our view. *Fifteen Percent Case, 1931*, 178 I. C. C. 539, 576.

[86] 49 U. S. C., sec. 15 (7).

[87] 49 U. S. C., sec. 15 (1).

delays that by no stretch of the imagination could be considered reasonable. Commission proceedings consistently have consumed the better part of a year, during which time the railroads have been unable to obtain much-needed revenue to which the Commission eventually found them entitled. To the credit of the Commission, it has sought to at least partially meet this problem by the device of interim increases. Under this practice, the Commission holds emergency hearings on proposed rate increases, and where justified by the preliminary facts, authorizes an interim increase in rates, a figure, which in effect is a minimum increase to which the railroads will be entitled on final decision. For instance, the railroads filed on April 15, 1946, for freight rate increases of approximately 22 percent. An interim increase of approximately 6 percent, effective July 1, 1946, was granted after emergency hearings. After further and extensive hearings, both regional and national, a final increase of 17.5 percent (including the interim increase) was granted effective January 1, 1947.

The authors of National Transportation Policy are highly critical of the Commission for the lag in rate increases.[88] They point out that there were no substantial facts adduced at hearings subsequent to the granting of the interim increase to justify the additional 11.5 percent increase, since the labor and material costs were fixed at the time of the emergency hearings. The point of the argument is not that the increase should have been fixed at 6 percent, but that any increase finally allowed should have been granted 6 months before. The cost to the railroads of this delay cannot be measured too accurately, but it is estimated that a substantial part of the $386,000,000 decline in railroad working capital during this period was due to the "Commission's unhurried handling of the rate cases." [89]

Subsequent rate increase cases followed the same pattern. The last general rate increase case, Increased Freight Rates, 1948, saw a lapse of 3 months from the filing of the initial petition by the railroads and the granting of the interim increase, and an additional 8 months before the final order was made effective.

It is clear that the interim increase, although a step in the right direction, is far from a satisfactory solution of the time lag problem. The Commission itself, fearful of court reversal should the amenities of fair hearing procedure not be observed meticulously, and with an apparent propensity for the exploration of dimly related collateral aspects of the case, holds out little hope for speedier disposition of rate cases.[90] Railroad representatives before this subcommittee urged that the Commission grant "in the first instance" the full measure of increases apparently needed to meet increased costs, subject to reparation in the event of final disallowance.[91] This subcommittee is not inclined to support this position. While experience has shown that more generous interim increases should have been made in fairness to the railroads, the impracticability of awarding rebates for overcharges on such a wide scale is almost conclusive against the recommendation. Further, should the Commission grant an interim increase subsequently found to be overgenerous, the disposition to fix that increase as the final decision, rather than undergo the complications of universal

[88] National Transportation Policy, op. cit., pp. 280-281.
[89] Ibid.
[90] "They cannot be heard in the twinkling of an eye, and the evidence submitted must be considered." Fifty-second Annual Report of the Interstate Commerce Commission, 1938, p. 8.
[91] Subcommittee hearings, p. 259.

reparation awards, understandably might be controlling in the minds of the Commission.

It seems apparent to this subcommittee that solving the problem of time lag, is, at least partially, dependent on the determination of the extent of control which the Commission is to exercise over rates in general. Should the Commission continue its present rigid wardenship of railroad rates, the time lag problem becomes acute. Should the railroad management, as we have suggested, be permitted to exercise a greater role in determining and effecting rates and charges within regulatory safeguards, the problem of time lag will all but vanish. The basic problem, therefore, is whether and to what extent the jurisdiction of the Commission over railroad rates should be modified.

(4) Recommended revisions of Commission rate jurisdiction

Assuming that the Commission retains the same degree of control over railroad rates, the administrative rigidity of rate schedules (which characterizes rate fixing by the Commission) and the tendency of the Commission to interfere with the managerial function, make two points clear: First, the factors to be considered by the Commission in establishing rates need limitation; second, the rule of rate making [92] needs revision.

In the first place, the Commission should be restrained from considering, in connection with rate fixing, matters which are not directly involved in the case at hand. Although, as a general proposition, the Commission is bound by a broad mandate of congressional policy, the specifics of the case should govern the decision in the absence of flagrant contravention of principle. It is small consolation to a carrier who is forced to operate under noncompensatory rates to know that the decision is based on a phrase from the declaration of national transportation policy. Nor should the Commission constitute itself a court of review of managerial decisions. No Commission may be apprised of the situation of a given carrier as fully as those directly responsible for the management of that carrier.

Secondly, and particularly if the Commission retains the power to establish rates and charges, the rule of rate making must be revised to insure that the railroads are permitted revenues consistent with investment. The comparison of railroad net return with that of other comparable major industries [93] shows a shocking disparity. The effect of insufficient return on capital invested, as has been shown, is the complete discouragement of investment. We cannot continue to deny to the railroads a fair return on invested value if they are to survive in private ownership. The railroad representatives urge the reestablishment of the "fair return" and suggest a figure in the neighborhood of 6 percent.[94] The authors of National Transportation Policy likewise suggest that the rule of rate making is a key weakness in the railroad rate regulatory structure.

This subcommittee agrees that revision of section 15a is necessary to insure that sufficient emphasis is placed on affording the carrier an over-all fair return on capital. This subcommittee further believes however, that the function of specific rate making is misplaced, and

[92] 49 U. S. C., sec. 15a (2).
[93] See table 13.
[94] Subcommittee hearings, p. 275.

suggests that the procedures under which it now is carried on be amended.

(5) Rate making as a managerial function

In the flexible competitive situation existing in the transportation industry today, the concept of curbing the railroad monopoly by rigid control of rates and charges is outmoded. In order to meet competition, and, at the same time, in order to remain solvent, the railroads must have a more flexible rate structure with respect to time, commodity, and region. It would seem desirable to restore to railroad management, subject to certain safeguards, the right and responsibility of making and altering railroad rates within a spread established after hearing by the Commission. Under this plan the Commission would determine maximum and minimum rates, adjustable by the Commission after hearing, in accordance with economic and industry conditions.

The advantages and disadvantages of this proposal are apparent. First, it would very greatly minimize the problem of time lag in rate increase cases. Second, it would avoid the inflexibility of the Commission-fixed rate, either on the "fair return" theory or that now employed, while, at the same time it would insure the well-managed railroad of a reasonable return on invested capital. Third, it would afford railroad management the flexibility necessary to meet the shifting competitive patterns in the transportation field. Fourth, it would partially obviate the cumbersome and inconclusive factor of compensatory rates, except as that factor might affect the nature of competition. Fifth, it would restore the principle of the value of the service to the user as a determinant in fixing rates. Sixth, and finally, it would restore a proper managerial function to railroad management in keeping with the principle and traditions of the American economy.

On the other hand, such a procedure to some degree would open the door to discrimination in rates and charges among users. There would necessarily be a congressional reexamination and detailed interpretation of the nature of "unjust" discrimination and "undue" preference. This should not raise any insurmountable administrative difficulties. There are de facto discriminations and preferences in any competitive industry brought about by size, location, or other factors. So long as the difference between users is justifiable, there is no real injustice. Further, the safeguards against unfair and destructive competition will need strengthening. If steps are taken to insure the railroads a truly competitive position, the Congress must also assure that that position cannot be used for the destruction of competitors. The proper role of a regulatory body in the transportation industry has become that of a monitor of competition. Minimum rates will effect at least partially this safeguard, and Congress should take any necessary further step to preserve a healthy industry. Finally, in the event that injustices result from the indiscretion of railroad management, adequate hearing procedures should be provided. It is conceivable that discriminations among shippers may occur, or even that rates within the spread estabished by the Commision may be found to be unreasonable under certain circumstances. Adequate protection, with provisions for reparations must be provided those aggrieved.

In the alternative, it is suggested that consideration be given to a modification of existing legislation to permit the railroad management to increase rates and charges without Commission interference, subject to a later showing that such increases are not unreasonable. This required subsequent justification by railroad management should act as a sufficient deterrent to arbitrary and unfair increases.

Obviously, such action would necessarily be limited to regional, district, or other such groups of carriers. No carrier acting alone could increase rates in this fashion. Further, in the interest of the shipper, such increases should be limited to those made necessary by increased labor or other costs in order to preserve a fair rate of return, possibly established by legislation.

The chief advantage of this alternative, insofar as the rail carriers are concerned, is the speed with which rail management might meet increases in operating costs. The administrative lag which we have already criticized would be entirely eliminated. The shipper would be protected against unreasonable charges by two safeguards. The first of course is that of the force of competition by other carriers. Where that force is not effective, the required subsequent justification of the increase will deter unreasonable action.

Where unreasonable increases were found to have occurred, the Commission would of course require refunds of overcharges. We have already pointed out the administrative difficulty of this procedure. However, we believe that the proposition holds sufficient merit to warrant serious consideration.

J. PROBLEMS OF STATE REGULATION

Historically, the advance agents of Federal regulation were the preliminary controls applied by the States shortly after the Civil War. The Federal Government's entry into the regulatory field quickly superseded the State efforts insofar as interstate commerce was concerned, but the States, of course, still retain full jurisdiction over intrastate matters. To a degree, at least, the same problems exist at the State level as are found on the national level.

In particular, the major problems faced by the railroads in connection with State regulation is that of procedural delay in rate-increase cases. Despite the fact that representatives of State commissions frequently sit with the Interstate Commerce Commission in general rate-increase cases, awards of increases in intrastate fares and rates invariably lag far behind the allowance of increases by the Interstate Commerce Commission. In one case specifically presented to this subcommittee,[95] the State lag amounted to 2 years and 8 months, during which time further increases in interstate rates had been allowed. This lag seems to be due at least in part to pure obstructionist tactics on the part of the responsible public officials, in an effort to keep fares as low as possible within the State.[96] The losses to the railroads concerned have been substantial.

An additional problem in State regulation hinges on the attempt of the railroads to abandon service, usually passenger carriage, which has proved financially unsound. State commissions are understandably loath to permit abandonment of any service, as the beneficiaries of

[95] Subcommittee hearings, p. 268.
[96] Ibid.

that service are local residents, and their protests are much more effective than that of the railroad. Losses from unprofitable passenger service particularly have been a substantially contributing factor in the poor financial status of the major railroads today.[97]

There is no question as to the power of Congress over such matters when they have become an obvious burden on interstate commerce.[98] The problem, of course, is to relieve the railroads of unnecessary burden, at the same time preserving the substantive jurisdiction of the several States. A reasonable solution would seem to lie in conferring jurisdiction of appellate nature on the Interstate Commerce Commission in the matter of abandonment as well as of rates. The committee believes much merit lies in the suggestion that a reasonable time limitation be placed on rate increase cases before State commissions, to run after the interstate increases have been allowed. Further, permission should be authorized for an appeal to the Interstate Commerce Commission on the expiration of the limitation, on the grounds that further delay constitutes an unreasonable burden on interstate carriers. Should the rate-determination recommendations of this subcommittee be adopted, it would be hoped that the States would follow the pattern and thus eliminate the problem insofar as rate increase cases are concerned.

K. DIVERSION

The growth of railroad competitors is a result of two factors. Primarily, the success of motor, water, and air operations in competition with the rails must be attributed to their individual advantages in specific situations for specific shippers. These carriers, by and large, have grown to meet the needs of an expanding economy. They perform services which the railroads could not offer, or refused to offer, or could not perform as well or as cheaply. While exact measurement is impossible, it is safe to say that the major part of the development of competition to the rails, particularly in the past 20 years, is attributable directly to their inherent advantage over the rails, as determined by the shipping public.

On the other hand, a substantial factor in the growth of railroad competitors has been Government promotion and subsidy. In some cases this has been negligible, in others, most significant. In addition, there is the factor of inequitable regulation and archaic rate-making practices, which already have been discussed.

The railroads insist that the chief ingredient in the successful operations of their competitors has been that of Government aid, either by subsidy or protection.[99] The supposedly favored competitors, however, vehemently deny any favors of any sort to which they are not entitled.[1] Admittedly, there is a vast number of factors which must be taken into account in the determination of whether an exemption from regulation, for example, or a public subsidy, is justifiable. For the purpose of assaying the effect of competition on the railroads, no attempt will be made here to justify or dispute the necessity for such action by Congress. Those arguments have been made in more ap-

[97] The deficit resulting from the Clinchfield Railroad passenger service between Elkhorn City, Ky., and Spartansburg, S. C., in 1949 was $266,803, and the ratio of expenses to revenue was 322.55 to 1. Subcommittee hearings, p. 1446.

[98] *Wisconsin Railroad Commission* v. *C. B. & Q. Railroad Co.*, 257 U. S. 563; *N. Y.* v. *U. S.*, 257 U. S. 591.

[99] Subcommittee hearings, p. 196.

[1] Ibid., p. 1266.

propriate parts of this report. In general, it is the contention of this subcommittee that Government aid, by protective regulation or by subsidy, is the greatest unbalancing element in the transportation industry, and should be the subject of careful analysis by the Congress.

(*1*) *Diversion of freight traffic*

The word "diversion" of itself has been a subject of some controversy.

Since the measurement of traffic diversion, by the definition we have accepted, is partially a matter of proportion of total traffic, total ton-mileage figures are not as significant as are the percentages hauled by types of carriers. For comparative purposes, table 7 of the Appendix shows the total ton-mileage of the Nation from 1920 to 1949, with the distribution of that burden among competing carriers. These same figures are graphically shown in chart 1.

These figures, even on a proportional basis, do not indicate the significance of the shift of traffic of which the railroads complain. On a ton-mileage basis, the freight traffic has not been unbalanced to a degree incapable of explanation on the grounds of the technical development of competitors or the realization of their inherent advantages. The clue to the dilemma faced by the railroads as a result of this shift of freight traffic is the nature of the commodity areas in which the shift has occurred. Again, this factor is difficult to measure, but a careful comparison of the percentages of motor ton-miles and of rail ton-miles with percentages of motor revenues and of rail revenues for a given time, shows a significant disproportion. For example, in 1948 according to a witness, regulated motor carriers hauled traffic equal to 6.6 percent of the railroad ton-mileage, and on that traffic collected revenues equal to 34.7 percent of total rail revenues.[2] The obvious conclusion, of course, is that the shift of freight from rails to motor has been in the high return traffic. Motor carriers insist that they are better adapted than the rails to carry this sort of traffic, and there is considerable merit in this contention. The railroads' problem is thoroughly entangled with the related problems of rate making, through-traffic rates, and particularly, with that of less profitable traffic, which has been, in effect, subsidized by rates on commodities now the principal subjects of diversion to motor carriage. By a combination of competition and regulation then, the railroads are being driven almost entirely to rely upon that traffic which they are best adapted to carry, or, to put it in another light, to rely on their operations where they still have some of the characteristics of monopoly. This report already has tried to emphasize that in the judgment of the subcommittee there is little justification for continued railroad monopoly regulation, which denies to them the means of effectively competing with other carriers. The effects of diversion of high-revenue freight traffic on the railroads, as shown above, is, in the opinion of this subcommittee, strong support for that general conclusion.

(*2*) *Diversion of passenger traffic*

The picture in the passenger traffic field is similar to that of freight. Although the private passenger car is the chief competitor, a significant percentage of passenger traffic has been diverted to air carriers, a

[2] Ibid., p. 146.

development that certainly should have been expected. A comparision of tables 8 and 5, and chart 2, points up the respective gains and losses, both on a passenger-mile basis, and on a percentage basis, for the years 1929 to 1949, inclusive. The significance of this loss of passenger traffic to the railroads is that it decreases the railroad revenues from, and in, a field in which operating deficits are common. As has been pointed out heretofore, a more realistic approach to the abandonment of unprofitable passenger lines certainly is indicated on the part of the Commission and State regulatory agencies. As used by witnesses for the railroads, it means seemingly, the amount of traffic carried by motor and water which the railroads believe would have been carried by them. To railroad competitors it seems to mean the natural result of keen competitive methods, i. e., the acquisition of new traffic as a result of the inherent advantage of the motor or water carrier over the railroads. The question as to whether in fact there is any diversion is a proper one for academic argument. This subcommittee accepts the use of the word in the interest of convenience, but is inclined to reject any connotation of Federal subsidy or of inherent advantage. Diversion as we use the word, is a result of the growth of railroad competition, whether it be natural growth of one sort or another, or that induced by Government assistance. This subcommittee does not mean to confine itself to specific traffic carried formerly by railroads, later by competitors. Diversion expresses the fact that the railroads, in 1929, carried 78.28 percent of the total freight ton-mileage of the Nation, and that in 1949, they carried but 59.99 percent of the same traffic.[3] As we have indicated, this change in percentage is largely attributable to the natural inroads of rapidly developing competition, but there is no doubt that varying regulatory administration and legislation account for a significant, though immeasurable, portion of the decrease. The problem of measuring diversion is perhaps best met by thus studying the movements of types of carriers as a proportional part of the total ton-mileage, as illustrated by tables 4 and 7. Although, as stated, our concept of diversion is not confined to the specific instance, an interesting approach to the problem can be made by analyzing statistically the history of certain established freight traffic.

(3) Causes of diversion

If it is remembered that diversion is an effect of many causes, rather than a problem which demands specific attention, it becomes obvious that the faults of railroad regulation and rate-making, already discussed, contribute substantially to diversion. Further, where it is established that competing carriers are subsidized or favored in other ways, the railroads' competitive position is of course immeasurably worsened. In essence, the statement of the problem foreshadows the conclusion. The railroads are engaged in a highly competitive field, and, in fact, Congress has declared its intention of nourishing that competition. On the other hand, the competitive position of the railroads has been worsened by unfair regulation and discrimination, as well as by protection of its competitors. If the railroads may not compete for traffic, that traffic will go to its competitors; in other

[3] See table 4, appendix.

words, it will be diverted from rail to motor, water, or air. The solution has been stated in general and in detail earlier in this report. A revision of the Federal regulatory program is essential to healthy railroads and, therefore, to a healthy national transportation system.

VI. Conclusion

The development and preservation of a strong, healthy, well-balanced transportation system in this country should be and is the aim of our national transportation policy. That aim has not failed of attainment because of any major defect in the expressed policy, but it has failed to be reached because actions of Congress and of the Commission have been taken in disregard of essential elements of the national transportation policy.

The recommendations contained herein are made for the purpose of correcting some of the more glaring defects in the application of our national transportation policy and to bring our transportation system to that state of health and strength which is admittedly so essential to the maintenance of a sound economy and to the very security of the Nation. Delay in the effectuation of these needed reforms can only hasten the eventual breakdown of the system which will inevitably occur unless some such corrective measures are employed.

APPENDIX

TABLE 1.—*Public aids to transportation and the amount paid by users*

RAILROADS

Value of land grants:	
At time of grant (AAR) [1]	$147,671,204
At time of grant (Eastman) [1]	174,264,999
At time of sale of land plus present value of unsold land (Eastman report) [2]	489,337,199
Estimated Federal savings (land-grant rail rate):	
To January 1928 [3]	56,000,000
January 1928 to January 1941 [3]	85,964,000
January 1941 to July 1942 [3]	120,042,000
Mail and express to July 1942 [3]	78,777,000
July 1942 to Dec. 12, 1945 [4] [5]	828,000,000
Total	1,168,783,000

[1] Bureau of Internal Revenue Report, H. Doc. 159, 79th Cong., p. 114.
[2] Public Aids to Transportation, pt. II, p. 40.
[3] Bureau of Internal Revenue Report, H. Doc. 159, 79th Cong., p. 128; hearings on H. R. 4184, 78th Cong., (1944), p. 26.
[4] Land-grant rates repealed Dec. 12, 1945 (Public Law 256, 79th Cong.).
[5] S. Rept. 552, 79th Cong., 1st sess., p. 5.

PUBLIC ROADS

Expenditures	State highways	County and local roads	City streets	Direct Federal expenditures	Total
To Dec. 31, 1920 [1]	$857,096,000	$1,531,476,000	$2,140,000,000	[2] $10,000,000	$4,538,572,000
1921 through 1948 [3]					
Federal funds	4,372,000,000	256,000,000	12,000,000	4,786,000,000	9,426,000,000
State funds	16,079,000,000	5,001,000,000	911,000,000		21,991,000,000
Local funds	899,000,000	8,194,000,000	10,558,000,000		19,651,000,000
Total public aid	22,207,096,000	14,982,476,000	13,621,000,000	4,796,000,000	55,606,572,000
Estimate of public aid for 1949					3,500,000,000
Total public aid, including 1949 estimate					59,106,572,000
Total special motor vehicle taxes paid by highway users to Dec. 30, 1948 [4]				39,168,918,884	

[1] Public Aids to Transportation (Eastman), pt. IV, pp. 58, 68, 72.
[2] Highway Statistics Summary to 1945, p. 57.
[3] General Services Administration, Bureau of Public Roads, Letter of July 22, 1949.
[4] Highway Statistics, Bureau of Public Roads.

WATERWAYS

Federal expenditures for rivers and harbors:	
1791 through 1920 [1]	$1,018,609,000
1921 through 1949 [2]	2,570,833,823
State and local expenditures since 1890 [3]	530,000,000
Value of Federal land grants to States using the same valuation applied to railroad land grants	1,756,274
Total public aid to waterways	4,121,199,097

[1] Bureau of Internal Revenue Report, H. Doc. 159, 79th Cong., p. 326.
[2] Board of Engineers for Rivers and Harbors, Sept. 9, 1949.
[3] Public Aids to Transportation (Eastman), pt. III, p. 11.

TABLE 2.—*Motor-vehicle registration in the United States, 1900–1949* [1]

[Does not include publicly owned vehicles]

Year	Automobiles	Busses [2]	Trucks	Total
1900	8,000			8,000
1901	14,800			14,800
1902	23,000			23,000
1903	32,920			32,920
1904	54,590		700	55,290
1905	77,400		1,400	78,800
1906	105,900		2,200	108,100
1907	140,300		2,900	143,200
1908	194,400		4,000	198,400
1909	305,950		6,050	312,000
1910	458,377		10,123	468,500
1911	618,727		20,773	639,500
1912	901,596		42,404	944,000
1913	1,190,393		67,667	1,258,060
1914	1,664,003		99,015	1,763,018
1915	2,332,426		158,506	2,490,932
1916	3,367,889		250,048	3,617,937
1917	4,727,468		391,057	5,118,525
1918	5,554,952		605,496	6,160,448
1919	6,679,133		897,755	7,576,888
1920	8,131,522		1,107,639	9,239,161
1921	9,212,158		1,281,508	10,493,666
1922	10,704,076		1,569,523	12,273,599
1923	13,253,019		1,849,086	15,102,105
1924	15,436,102		2,176,838	17,612,940
1925	17,439,701	17,808	2,483,215	19,940,724
1926	19,220,885	24,320	2,807,354	22,052,559
1927	20,142,120	27,659	2,969,780	23,139,559
1928	21,308,159	31,982	3,171,542	24,511,683
1929	23,060,421	33,999	3,408,088	26,502,508
1930	22,972,745	40,507	3,518,747	26,531,999
1931	22,330,402	41,880	3,489,756	25,862,038
1932	20,832,357	43,476	3,256,776	24,132,609
1933	20,586,284	44,918	3,245,505	23,876,707
1934	21,472,078	51,530	3,430,396	24,954,004
1935	22,494,884	58,994	3,675,865	26,229,743
1936	24,108,236	62,618	4,001,464	28,172,318
1937	25,390,773	66,166	4,249,219	29,706,158
1938	25,167,030	65,198	4,210,477	29,442,705
1939	26,139,526	68,859	4,406,702	30,615,087
1940	27,372,397	72,641	4,590,386	32,035,424
1941	29,524,101	88,800	4,859,244	34,472,145
1942	27,868,746	102,093	4,608,086	32,578,925
1943	25,912,730	106,702	4,480,176	30,499,608
1944	25,466,331	106,518	4,513,340	30,086,189
1945	25,601,434	112,253	4,834,742	30,638,429
1946	28,100,188	119,937	5,725,692	33,945,817
1947	30,718,852	128,983	6,512,628	37,360,463
1948	33,248,878	133,372	7,225,706	40,607,956
1949	36,292,703	134,971	7,692,569	44,120,243

[1] Compiled principally from the reports of State authorities; supplemented by information obtained from other sources.

[2] Available data do not permit a segregation of busses from automobiles and trucks for years prior to 1925.

TABLE 3.—*Ratio of net income to net worth of leading corporations (as published regularly by National City Bank)*

[All figures shown in percentages]

Year	Class I railroads (1)	Manufacturing corporations (2)	Mining and quarrying (3)	Trade (retail and wholesale) (4)	Public utilities (electric, gas, telephone and telegraph) (5)	Service and construction (6)	Finance (7)
1936	1.2	10.4	7.7	12.5	6.2	7.0	12.6
1937	.7	10.8	10.1	10.3	6.3	8.5	3.8
1938	−1.0	4.8	4.6	8.4	5.8	4.4	7.0
1939	.7	8.5	6.3	11.3	6.9	6.3	7.9
1940	1.5	10.3	5.5	10.5	7.2	7.8	7.9
1941	4.7	12.4	7.8	11.3	6.7	8.8	7.9
1942	8.4	10.1	7.4	9.9	6.2	11.1	6.9
1943	7.8	9.9	7.2	10.1	6.6	12.5	8.0
1944	5.7	9.8	8.0	10.4	6.6	11.3	7.7
1945	3.6	9.3	7.1	10.9	6.7	11.8	7.6
1946	2.3	12.1	9.4	21.9	8.2	19.4	6.4
1947	3.8	17.1	16.0	18.4	8.0	14.2	6.7
1948	5.4	18.9	20.5	18.1	8.4	10.5	8.5

NOTE.—Net income is taken as reported, after depreciation, interest, taxes, and other charges and reserves, but before dividends. Net worth includes book value of outstanding preferred and common stock and surplus account at beginning of each year.

Source: National City Bank publication, "Economic Conditions, etc.," April issue of each year.

TABLE 4.—*Freight ton-miles*

[Percentage of total traffic carried]

Year	Railroads	Water carriers	Motor carriers	Pipelines	Airlines
1929	78.28	18.43	3.29	----------	----------
1939	63.26	18.15	8.11	10.47	0.002
1940	62.12	19.54	8.44	9.91	.002
1941	64.21	18.88	7.68	9.22	.002
1942 [1]	70.09	16.25	5.49	8.17	.003
1943 [1]	71.84	13.94	4.74	9.47	.01
1944 [1]	69.06	14.00	4.60	12.34	.01
1945 [1]	67.98	14.18	5.58	12.25	.01
1946	67.93	14.16	7.34	10.56	.01
1947	66.67	14.87	7.90	10.55	.02
1948	64.19	15.35	8.68	11.76	.02
1949 [2]	59.99	17.70	10.24	12.04	.02

[1] War years.
[2] Estimated.

NOTE.—Total freight ton-miles according to table 40 increased 284,000,000,000 ton-miles or 47.03 percent in 1949 over 1940. Percentagewise, this 284,000,000,000 ton-miles was divided as follows:

	Percent
Railroads	55.46
Water carriers	13.82
Motor carriers	14.07
Pipelines	16.58
Airlines	.07

Staff computation from data in table 40 of studies under S. Res. 50.

TABLE 5.—*Intercity passenger-miles*

[Percentage distribution, 1929–49]

Year	Railroads	Busses	Private cars	Waterways	Airlines
1929	16.04	3.50	79.33	1.13	
1939	8.78	3.71	86.82	.50	0.26
1940	8.67	3.68	86.87	.40	.38
1941	9.49	4.39	85.32	.36	.44
1942 [1]	19.39	7.77	72.08	.26	.51
1943 [1]	33.19	10.35	55.58	.27	.62
1944 [1]	34.60	9.58	54.71	.29	.82
1945 [1]	30.33	8.89	59.40	.26	1.11
1946	18.46	7.32	72.28	.26	1.68
1947	13.13	6.68	78.20	.26	1.73
1948	11.34	6.31	80.47	.25	1.63
1949 [2]	9.60	5.82	82.42	.27	1.89

[1] War years.
[2] Estimated.

NOTE.—Total passenger-miles according to table 8 increased 91,000,000,000 passenger-miles or 33.29 percent in 1949 over 1940. Percentagewise, this 91,000,000,000 passenger-miles was divided as follows:

	Percent
Railroads	12.37
Busses	12.26
Private cars	69.07
Airlines	6.41
The waterways show a decrease of	.11

Staff computation based on table 8 of studies under S. Res. 50.

TABLE 6.—*Freight and passenger service revenues and expenses, class I railroads*

Year	Operating revenues, freight service (1)	Operating expenses,[1] freight service (2)	Freight service operating income (3=1−2)	Operating revenue, passenger service (4)	Operating expenses,[1] passenger service (5)	Passenger service operating income (6=4−5)	Operating ratio [2]	
							Freight service	Passenger service
	Thousands	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*		
1920	$4,428,201	$4,375,533	$52,668	$1,678,151	$1,444,176	$233,975	98.81	86.06
1921	4,008,911	3,308,018	700,893	1,444,151	1,249,679	194,472	82.52	86.53
1922	4,094,489	3,224,809	869,680	1,398,970	1,184,875	214,075	78.76	84.70
1923	4,727,740	3,666,250	1,061,490	1,488,661	1,222,826	265,835	77.55	82.14
1924	4,439,515	3,312,214	1,127,301	1,414,854	1,188,675	226,179	74.61	84.01
1925	4,670,632	3,339,486	1,331,146	1,417,457	1,189,739	227,718	71.50	83.93
1926	4,943,382	3,455,818	1,487,564	1,414,287	1,207,148	207,139	69.91	85.35
1927	4,771,120	3,362,723	1,408,397	1,340,205	1,205,133	135,072	70.48	89.92
1928	4,816,619	3,254,039	1,562,580	1,270,465	1,167,824	102,641	67.56	91.92
1929	4,960,521	3,330,207	1,630,314	1,295,114	1,170,510	124,604	67.13	90.38
1930	4,198,295	2,848,169	1,350,126	1,062,656	1,078,652	−15,996	67.84	101.51
1931	3,345,898	2,302,772	1,043,126	824,959	917,088	−92,129	68.82	111.17
1932	2,520,510	1,693,926	826,584	591,905	706,932	−115,027	67.21	119.43
1933	2,565,022	1,615,745	949,277	517,348	629,945	−112,597	62.99	121.76
1934	2,713,633	1,766,074	947,559	543,876	671,758	−127,882	65.08	123.51
1935	2,880,411	1,870,814	1,009,597	554,295	717,492	−163,197	64.95	129.44
1936	3,404,917	2,171,316	1,233,601	627,689	749,451	−121,762	63.77	119.40
1937	3,483,474	2,310,116	1,173,358	664,669	796,542	−131,873	66.32	119.84
1938	2,941,540	1,967,626	973,914	610,807	744,039	−133,232	66.89	121.81
1939	3,349,867	2,142,978	1,206,889	632,036	764,661	−132,625	63.97	120.98
1940	3,647,019	2,296,950	1,350,069	634,858	780,160	−145,302	62.98	122.89
1941	4,585,262	2,799,361	1,785,901	751,397	856,776	−105,379	61.05	114.02
1942	6,111,223	3,548,838	2,562,385	1,347,563	1,046,935	300,628	58.07	77.69
1943	6,966,034	4,302,471	2,663,563	2,079,659	1,346,934	732,725	61.76	64.77
1944	7,177,959	4,746,376	2,431,583	2,248,142	1,527,117	721,025	66.12	67.93
1945	6,717,499	5,372,378	1,345,121	2,173,466	1,669,974	503,492	79.98	76.83
1946	5,974,315	4,699,796	1,274,519	1,643,644	1,649,357	−5,713	78.67	100.35
1947	7,274,860	5,144,219	2,130,641	1,400,107	1,644,704	−244,597	70.71	117.47
1948	8,227,413	5,636,248	2,591,165	1,434,992	1,827,879	−392,887	68.51	127.38
1949	7,275,867	5,113,714	2,162,153	1,295,811	1,770,952	−475,142	70.28	136.67

[1] Before taxes.
[2] Ratio of operating expense to operating revenue, table 103, ICC Statistics of Railways in United States (1948) and comparable tables in preceding years.

Source: ICC: Statistics of Railways in the United States, table 113-B (1949 figures from AAR).

TABLE 7.—*Freight ton-miles for railroads, water carriers, motor carriers, and pipelines*

Year	Railroads (classes I, II, and III) [1]	Water carriers (all inland and coastal rivers and Great Lakes) [2]	Intercity motor carriers (all trucks including private and for hire) [3]	Pipelines (crude and refined including gathering and nonreporting lines) [4]	Total
1920	413,698,749,000	[5] 76,373,134,000	4,500,000,000		494,571,883,000
1921	309,533,365,000	[5] 48,999,544,000	5,343,000,000		363,875,909,000
1922	342,187,536,000	[5] 63,706,767,000	6,711,000,000		412,605,303,000
1923	416,255,550,000	[5] 86,119,352,000	8,105,000,000		510,479,902,000
1924	391,945,037,000	[5] 75,438,273,000	9,774,000,000		477,157,310,000
1925	417,418,464,000	92,133,794,000	11,423,000,000		520,975,258,000
1926	447,443,627,000	99,580,383,905	13,576,000,000		560,600,010,905
1927	432,013,979,000	93,289,899,378	15,063,000,000		540,366,878,378
1928	436,086,747,000	96,514,434,274	16,835,000,000		549,436,181,274
1929	450,189,394,000	105,982,780,414	18,894,000,000		575,366,174,414
1930	385,815,376,000	86,453,071,833	20,345,000,000		492,613,447,833
1931	311,072,637,000	58,312,197,320	20,153,000,000		389,537,834,320
1932	235,308,521,000	32,638,788,125	18,806,000,000		286,753,309,125
1933	250,651,190,000	55,300,565,577	18,691,000,000		324,642,755,577
1934	270,291,541,000	57,690,055,543	20,652,000,000		348,633,596,543
1935	283,637,058,000	68,096,388,849	24,628,000,000		376,361,446,849
1936	341,181,596,000	92,650,735,772	28,844,000,000		462,676,331,772
1937	362,815,382,000	110,126,616,590	32,306,000,000	57,765,000,000	563,012,998,590
1938	291,866,410,000	66,746,526,439	37,000,000,000	55,020,000,000	450,632,936,439
1939	335,375,486,000	96,249,443,000	43,000,000,000	55,526,000,000	530,150,929,000
1940	375,368,718,000	118,056,969,000	51,003,000,000	59,867,000,000	604,295,687,000
1941	477,576,232,000	140,453,922,000	57,123,000,000	68,585,000,000	743,738,154,000
1942	640,992,240,000	148,565,024,000	50,207,000,000	74,730,000,000	914,494,264,000
1943	730,132,280,000	141,652,177,962	48,199,000,000	96,257,000,000	1,016,240,457,962
1944	740,586,092,000	150,154,792,000	49,308,000,000	132,336,000,000	1,072,384,884,000
1945	684,148,448,000	142,737,242,000	56,155,000,000	123,293,000,000	1,006,333,690,000
1946	594,942,799,000	123,973,219,000	64,300,000,000	92,490,000,000	875,706,018,000
1947	657,877,829,000	146,714,238,000	77,900,000,000	104,153,000,000	986,645,067,000
1948 [6]	647,937,000,000	154,968,000,000	87,640,000,000	118,676,000,000	1,009,221,000,000
1949 [6]	583,000,000,000	157,340,000,000	91,000,000,000	107,000,000,000	938,340,000,000

[1] Statistics of Railways for the year ended Dec. 31, 1947, table 155, p. 160.

[2] Board of Engineers for Rivers and Harbors, July 1949.

[3] Figures for 1920 through 1924 and through 1929 furnished by the American Trucking Association, Inc.; 1925 and through 1937 furnished by Automobile Manufacturers Association; 1938–48, ICC annual report to Congress.

[4] ICC annual reports. Represents ton-miles (converted from barrel-miles) carried in trunk lines or reporting carriers, with estimates for gathering lines of such carriers and for lines not reporting, adjusted Sept. 12, 1949.

[5] Figures for 1920 through 1924 are estimates based on the average miles hauled on each system during the 5-year period 1925–29.

[6] Partially estimated.

TABLE 8.—*Intercity passenger-miles traveled, continental United States*

[Billions of miles]

Year	Private car [1]	Railroads classes I, II, and III [2]	Busses [1]	Waterways [3]	Air [4]	Total
1929	154.3	31.2	6.8	2.2	.....	194.5
1930	160.9	26.9	7.1	1.4	.....	196.3
1931	168.6	21.9	6.7	1.1	.....	198.3
1932	156.4	17.0	6.3	1.3	.....	181.0
1933	156.5	16.4	6.4	1.1	.....	180.4
1934	168.1	18.0	7.1	1.3	.....	194.5
1935	178.3	18.5	7.6	1.2	.....	205.6
1936	197.4	22.5	9.2	1.3	.....	230.4
1937	212.3	24.7	10.0	1.3	.....	248.3
1938	213.9	21.7	9.6	1.1	.....	246.3
1939	224.4	22.7	9.6	1.1	0.7	258.5
1940	238.4	23.8	10.1	1.1	1.0	274.4
1941	264.3	29.4	13.6	1.1	1.4	309.8
1942	199.6	53.7	21.5	.7	1.4	276.9
1943	147.2	87.9	27.4	.7	1.6	264.8
1944	151.3	95.7	26.5	.8	2.3	276.6
1945	179.8	91.8	26.9	.8	3.4	302.7
1946	253.7	64.8	25.7	.9	5.9	351.0
1947	274.0	46.0	23.4	.9	6.1	350.4
1948	293.1	[5] 41.3	23.0	[5] .9	[5] 5.9	364.2
1949	[5] 301.5	[5] 35.1	[5] 21.3	[5] 1.0	[5] 6.9	365.8

[1] National Association of Motor Bus Operators, Letter 7, 1949.
[2] Statistics of Railways in the United States, ICC, table 155, p. 160 (1947).
[3] Board of Engineers for Rivers and Harbors, Letter 7, 1949.
[4] Annual reports, ICC.
[5] Estimates.

TABLE 9.—*Trend of wages and cost of living, 1929–49*

Year	Average employees' wages					Index (1935–39=100)					
						Wages					Consumers' price (all items) (monthly average) (3)
	Entire transportation	Class I railroads (1)	Motor carriers (2)	Water carriers (2)	Pipelines (2)	Entire transportation industry	Class I railroads	Motor carriers	Water carriers	Pipelines	
						Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1929	$1,642	$1,744	$1,313	$1,272	$1,927	101.2	97.8	102.0	92.8	108.9	122.5
1930	1,610	1,714	1,289	1,218	1,802	99.2	96.1	100.2	88.8	101.9	119.4
1931	1,549	1,664	1,183	1,146	1,794	95.4	93.3	91.9	83.6	101.4	108.7
1932	1,373	1,466	1,050	1,038	1,691	84.6	82.2	81.6	75.7	95.6	97.6
1933	1,334	1,445	1,003	1,066	1,443	82.2	81.0	77.9	77.8	81.6	92.4
1934	1,393	1,508	1,083	1,054	1,521	85.8	84.6	84.2	76.9	86.0	95.7
1935	1,492	1,653	1,144	1,092	1,575	91.9	92.7	88.9	79.6	89.0	98.1
1936	1,582	1,735	1,217	1,375	1,609	97.5	97.3	94.6	100.3	91.0	99.1
1937	1,644	1,781	1,314	1,541	1,822	101.3	99.9	102.1	112.4	103.0	102.7
1938	1,676	1,859	1,346	1,294	1,909	103.3	104.3	104.6	94.4	107.9	100.8
1939	1,723	1,887	1,412	1,553	1,930	106.2	105.9	109.7	113.3	109.1	99.4
1940	1,754	1,913	1,436	1,648	1,928	108.1	107.3	111.6	120.2	109.0	100.2
1941	1,888	2,045	1,552	1,854	2,099	116.3	114.7	120.6	135.2	118.7	105.2
1942	2,181	2,307	1,906	2,729	2,280	134.4	129.4	148.1	199.1	129.0	116.5
1943	2,491	2,598	2,209	3,388	2,720	153.5	145.7	171.6	247.1	153.8	123.6
1944	2,677	2,727	2,410	3,624	3,038	164.9	152.9	187.3	264.4	171.7	125.5
1945	2,732	2,721	2,558	3,583	3,240	168.3	152.6	198.8	261.3	183.2	128.4
1946	2,937	3,068	2,700	3,415	3,259	181.0	172.1	209.8	249.1	184.2	139.3
1947	3,148	3,219	2,890	3,747	3,750	194.0	180.5	224.6	273.3	212.0	159.2
1948	3,445	3,594	3,106	4,000	4,067	212.3	201.6	241.4	291.8	230.0	171.2
1949	[1] 3,825	[1] 3,700	[1] 3,250	[1] 4,150	[1] 4,200	[1] 235.7	[1] 207.5	[1] 252.5	[1] 302.7	[1] 237.4	169.1

[1] Based on subcommittee staff estimates.

Sources:
(1) AAR Railroad Transportation 1948; p. 22.
(2) U. S. Department of Commerce Survey of Current Business, July 1947 and 1949, table 26, pp. 21, 38.
(3) Department of Commerce Statistical Abstract of the United States (1948) table 330, p. 302 and Department of Labor, Bureau of Labor Statistics (midmonth count.)

TABLE 10.—*Revenues, expenses, and net income, railways of class I in the United States, years 1921–48*

Year	Investment in railway property used in transportation service		Operating revenues					
	Total [1]	After accrued depreciation and amortization	Total	Freight	Passenger	Mail	Express	All other
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1921	$21,370,946,298	$20,120,888,897	$5,516,598,242	$3,924,119,819	$1,153,791,925	$95,609,962	$104,577,059	$238,499,477
1922	21,613,253,367	20,266,120,399	5,559,092,708	4,005,558,722	1,075,936,844	90,991,024	143,291,195	243,314,923
1923	22,478,537,191	21,062,630,648	6,289,580,027	4,622,364,989	1,147,588,884	92,926,296	152,910,540	273,795,318
1924	23,202,917,525	21,665,727,858	5,921,496,325	4,345,538,231	1,076,456,783	97,961,371	143,388,606	258,151,334
1925	23,779,460,493	22,121,481,504	6,122,509,856	4,552,756,017	1,057,704,231	97,106,075	145,377,429	269,566,104
Average 1921–25	22,489,022,975	21,047,369,861	5,881,855,432	4,290,067,556	1,102,295,733	94,917,746	137,908,966	256,665,431
1926	24,460,100,367	22,670,379,771	6,382,939,546	4,809,640,798	1,043,070,646	96,165,492	149,071,699	284,990,911
1927	24,957,623,589	23,026,049,659	6,136,300,270	4,643,517,011	976,177,636	95,973,967	143,385,777	277,245,879
1928	25,441,508,303	23,393,203,906	6,111,735,511	4,691,147,326	902,329,865	104,398,937	142,599,048	271,260,335
1929	26,039,558,344	23,868,075,203	6,279,520,544	4,825,622,121	873,564,246	151,486,497	148,195,924	280,651,756
1930	26,526,742,889	24,175,910,891	5,281,196,870	4,083,241,558	729,470,279	111,451,186	114,664,983	242,368,864
Average 1926–30	25,485,106,698	23,426,723,886	6,038,338,548	4,610,633,763	904,922,534	111,895,216	139,583,486	271,303,549
1931	26,405,685,824	23,886,566,046	4,188,343,244	3,254,667,938	551,047,483	105,423,198	82,774,882	194,429,743
1932	26,324,022,378	23,683,874,384	3,126,760,154	2,450,829,130	377,095,346	97,161,716	53,983,056	147,690,906
1933	26,124,835,882	23,406,963,511	3,095,403,904	2,492,678,146	329,341,830	91,870,415	45,639,786	135,873,727
1934	25,978,114,445	23,207,477,166	3,271,566,822	2,633,399,103	346,324,993	91,139,847	54,013,025	146,689,854
1935	25,919,335,950	23,136,479,316	3,451,929,411	2,790,551,400	357,904,808	92,052,257	53,328,422	158,092,524
Average 1931–35	26,150,398,896	23,464,272,085	3,426,800,707	2,724,425,143	392,342,892	95,529,487	57,947,834	156,555,351
1936	25,988,789,704	23,174,693,114	4,052,734,139	3,308,540,696	412,378,982	95,574,820	60,187,397	176,052,244
1937	26,050,839,724	23,093,456,881	4,166,068,602	3,377,908,424	442,809,308	97,983,876	57,682,926	189,684,068
1938	26,056,171,748	23,004,270,311	3,565,490,753	2,858,077,292	405,883,269	95,963,353	48,461,708	157,105,131
1939	26,121,159,802	23,016,834,710	3,995,004,251	3,251,096,182	416,903,154	99,012,368	55,189,591	172,802,956
1940	26,345,188,489	23,168,227,950	4,296,600,653	3,537,149,646	417,268,960	101,086,898	55,642,993	185,452,156
Average 1936–40	26,112,429,893	23,091,496,592	4,015,179,679	3,266,554,448	419,048,735	97,924,263	55,432,923	176,219,310
1941	26,636,483,488	23,300,631,239	5,346,699,997	4,447,568,333	514,687,032	108,192,461	57,281,540	218,970,631
1942	27,002,538,349	23,404,194,095	7,465,822,849	5,944,345,074	1,028,185,616	111,377,039	96,869,117	285,046,003
1943	27,655,120,313	23,654,529,995	9,054,724,384	6,782,463,423	1,652,867,962	125,050,640	127,816,688	366,525,671

[1] Includes investment in road and equipment, material and supplies, account 716, and cash account 708.

TABLE 10.—*Revenues, expenses, and net income, railways of class I in the United States, years 1921–48*—Continued

Year	Investment in railway property used in transportation service		Operating revenues					
	Total [1]	After accrued depreciation and amortization	Total	Freight	Passenger	Mail	Express	All other
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1944	$27, 892, 795, 227	$23, 396, 921, 589	$9, 436, 789, 811	$6, 998, 614, 851	$1, 790, 305, 288	$130, 245, 809	$143, 852, 588	$373, 771, 275
1945	28, 299, 037, 463	22, 606, 513, 846	8, 902, 248, 339	6, 533, 767 008	1, 716, 379, 470	129, 571, 449	143, 968, 567	378, 561, 845
Average 1941–45	27, 497, 194, 988	23, 272, 558, 153	8, 041, 257, 076	6, 141, 351, 738	1, 340, 485, 074	120, 887, 480	113, 957, 700	324, 575, 084
1946	28, 507, 209, 963	22, 548, 967, 331	7, 627, 650, 517	5, 786, 556, 397	1, 259, 168, 733	129, 000, 744	92, 762, 483	360, 162, 160
1947	29, 106, 036, 852	22, 891, 188, 451	8, 684, 918, 252	7, 041, 184, 941	963, 322, 178	170, 181, 620	115, 835, 546	394, 393, 967
1948	[2]	[2]	9, 671, 576, 262	7, 976, 172, 815	964, 303, 426	199, 939, 409	117, 631, 164	413, 529, 448

Year	Total operating expenses	Taxes	Net railway operating income			Net income
			Amount	Rate of return on gross investment	Rate of return on investment after depreciation and amortization	
	(9)	(10)	(11)	(12)	(13)	(14)
				Percent	*Percent*	
1921	$4, 562, 668, 302	$275, 875, 990	$600, 937, 356	2. 81	2. 99	$313, 562, 762
1922	4, 414, 522, 334	301, 034, 923	760, 187, 319	3. 52	3. 75	369, 573, 432
1923	4, 895, 166, 819	331, 915, 459	961, 955, 457	4. 28	4. 57	554, 995, 304
1924	4, 507, 885, 037	340, 336, 686	973, 837, 202	4. 20	4. 49	558, 466, 356
1925	4, 536, 880, 291	358, 516, 046	1, 121, 076, 341	4. 71	5. 07	700, 831, 364
Average 1921–25	4, 583, 424, 557	321, 535, 821	883, 598, 735	3. 93	4. 20	499, 485, 844
1926	4, 669, 336, 736	388, 922, 856	1, 213, 089, 966	4. 96	5. 35	809, 054, 202
1927	4, 574, 177, 821	376, 110, 250	1, 067, 985, 495	4. 28	4. 64	672, 899, 809
1928	4, 427, 995, 036	389, 432, 415	1, 172, 864, 100	4. 61	5. 01	786, 823, 584

[1] Includes investment in road and equipment, material and supplies, account 716, and cash account 708.

1929	4,506,056,262	396,682,634	1,251,697,938	4.81	5.24	896,806,611
1930	3,930,928,687	348,553,953	868,878,773	3.28	3.59	523,907,472
Average 1926–30	4,421,698,908	379,940,422	1,114,903,254	4.37	4.76	737,898,336
1931	3,223,574,616	303,528,099	525,627,852	1.99	2.20	134,761,911
1932	2,403,444,895	275,135,399	326,298,008	1.24	1.38	[2] 139,203,821
1933	2,249,231,779	249,623,190	474,295,613	1.82	2.03	[2] 5,862,836
1934	2,441,822,767	239,624,802	462,652,379	1.78	1.99	[2] 16,887,078
1935	2,592,741,419	236,944,985	499,819,118	1.93	2.16	7,539,127
Average 1931–35	2,582,163,095	260,971,295	457,738,594	1.75	1.95	[2] 3,930,539
1936	2,931,425,056	319,752,721	667,347,115	2.57	2.88	164,630,041
1937	3,119,064,934	325,665,165	590,203,925	2.27	2.56	98,057,740
1938	2,722,199,007	340,781,954	372,873,771	1.43	1.62	[2] 123,471,074
1939	2,918,209,708	355,677,558	588,829,083	2.25	2.56	93,181,534
1940	3,089,417,209	396,394,774	682,133,478	2.59	2.94	188,851,151
Average 1936–40	2,956,063,183	347,654,434	580,277,475	2.22	2.51	84,249,878
1941	3,664,232,231	547,230,071	998,255,786	3.75	4.28	499,765,137
1942	4,601,083,424	1,198,833,532	1,484,519,296	5.50	6.34	901,712,555
1943	5,657,461,281	1,849,195,157	1,359,768,421	4.92	5.75	873,478,025
1944	6,282,062,676	1,846,043,134	1,106,327,148	3.97	4.73	667,188,402
1945	7,051,627,219	823,511,885	852,147,005	3.01	3.77	450,433,645
Average 1941–45	5,451,293,366	1,252,962,756	1,160,203,531	4.22	4.99	678,515,553
1946	6,357,415,175	498,144,025	620,120,069	2.18	2.75	287,138,553
1947	6,797,264,686	936,394,518	780,694,270	2.68	3.41	478,874,571
1948	7,471,554,087	1,028,530,531	1,002,352,323	[4] 3.44	[4] 4.38	[3] 700,012,509

[2] Deficit.
[3] Not available.
[4] Computed on investment at beginning of year.
[5] From monthly reports of railways to the Interstate Commerce Commission.

NOTE.—During the months of September to December 1945, a number of carriers made large charges to operating expenses for amortization of defense projects in excess of normal accruals under the statutory provisions of the tax laws permitting them to amoritze in full, at the end of the war, the unamortized portions of property certified as emergency facilities under sec. 124 of the Internal Revenue Code. If the income account for 1945 were restated to eliminate the effect of these concentrated charges for amortization and the resulting tax credits, the net railway operating income and the net income for that year would have been increased by $160,000,000 (see Commission's Bureau of Transport Economics and Statistics, Monthly Comment on Transportation Statistics, Feb. 15, 1946, p. 4), and the rate of return on investment after depreciation would have been 4.48 percent instead of 3.77 percent. The year 1946 includes Federal income carry-back tax credits in the amount of $170,500,000. If net railway operating income were adjusted to eliminate this unusual item, the rate of return on investment after depreciation would have been 1.99 percent instead of 2.75 percent.

TABLE 11.—*Dividends, 1938–48, line-haul railways and their lessor subsidiaries*

Year ended Dec. 31	Proportion of stock paying dividends [1]	Amount of dividends [1]	Average rate on—		Dividends declared on [2]—	
			Dividend-paying stock [1]	All stock	Preferred stock	Common stock
	Percent	*Thousands*	*Percent*	*Percent*		
1938	32.07	$136,270	4.34	1.39	$13,643,634	$69,088,932
1939	32.64	179,412	5.62	1.84	19,154,336	106,799,624
1940	38.29	216,522	5.79	2.22	23,540,218	135,774,682
1941	40.65	239,438	6.20	2.52	27,445,002	158,400,721
1942	56.37	254,088	4.74	2.67	34,422,097	167,848,035
1943	57.97	263,919	4.83	2.83	37,046,973	179,496,716
1944	58.46	292,248	5.29	3.09	54,577,117	191,401,095
1945	57.13	295,294	5.49	3.13	48,448,791	197,543,159
1946	55.50	283,171	5.42	3.01	58,649,278	175,932,458
1947	56.20	280,397	5.41	3.04	54,759,213	181,706,349
1948	69.75	335,313	5.20	3.63	69,244,802	220,001,710

[1] Includes figures for lessors and operating railways without excluding duplications on account of inter-corporate payments. Stock dividends for the last 11 years have been as follows: $705,000 in 1943 and $15,800 in 1948.

[2] By class I line-haul railways.

Source: Interstate Commerce Commission Sixty-third Annual Report, p. 149.

TABLE 12.—*Average rate of depreciation on equipment, railroads of class I in the United States* [1]

Equipment	Depreciation base Nov. 30, 1948	Credits to depreciation reserve during year	Percent depreciation of base
Steam locomotives	$1,436,554,348	$47,030,166	3.27
Other locomotives	811,067,878	30,412,046	3.75
Freight-train cars	3,473,301,382	112,298,015	3.23
Passenger-train cars	876,843,305	26,581,686	3.03
Floating equipment	74,442,846	2,019,579	2.71
Work equipment	179,744,031	6,893,853	3.84
Miscellaneous equipment	17,295,388	2,184,738	12.63
Total equipment	6,869,249,178	227,420,083	3.31

[1] Excludes amortization of defense projects.

Source: Association of American Railroads—1949.

TABLE 13.—*Public aids to highways, 1920–48* [1]*—State, county, and local highways and city streets*

[Amounts in millions]

Year	Federal funds [2]	State funds [2]	Local funds [2]	Total funds (all)	Year	Federal funds [2]	State funds [2]	Local funds [2]	Total funds (all)
1920	$66	$219	$802	$1,087	1936	$1,034	$730	$497	$2,261
1921	80	293	899	1,272	1937	736	857	469	2,062
1922	84	305	912	1,301	1938	1,014	918	494	2,426
1923	80	332	830	1,242	1939	900	866	502	2,268
1924	102	440	921	1,463	1940	743	951	466	2,160
1925	102	505	993	1,600	1941	542	965	442	1,949
1926	89	514	1,038	1,641	1942	322	811	411	1,544
1927	90	573	1,185	1,848	1943	162	679	364	1,205
1928	92	709	1,174	1,975	1944	100	736	394	1,230
1929	89	812	1,112	2,013	1945	78	800	434	1,312
1930	111	994	1,194	2,299	1946	178	1,181	573	1,932
1931	241	871	981	2,093	1947	335	1,597	605	2,537
1932	160	804	697	1,661	1948	394	1,924	669	2,987
1933	324	643	496	1,463	1949	489	2,237	902	3,628
1934	755	592	435	1,782					
1935	489	589	474	1,552	Total	9,981	24,447	21,365	55,793

[1] Estimated expenditures.
[2] Construction and reconstruction only (includes Works Projects Administration and other relief agencies as well as expenditures of Forest Service, National Park Service, and Office of Indian Affairs).
[3] Includes construction and reconstruction, maintenance, and administration.

Source: General Services Administration, Bureau of Public Roads. Latest revision by letter of Nov. 17, 1950.

TABLE 14.—*Federal, State and local taxes paid by highway users, 1901–48*

Year	State motor Vehicle (1)	State motor fuel (2)	Special State, county, and city taxes (3)	Total State and local taxes (4)	Federal motor vehicle excise taxes (5)	Total State, local, and Federal taxes paid by highway users (6)
Prior to 1925				$1,594,106,000	$810,880,679	$2,404,986,679
1925	$260,583,000	$148,358,000	$43,085,000	452,026,000	145,301,791	597,327,791
1926	288,236,000	187,603,000	50,051,000	525,890,000	96,432,454	622,322,454
1927	300,872,000	258,967,000	55,875,000	615,714,000	60,503,683	676,217,683
1928	322,577,000	305,234,000	61,738,000	689,549,000	28,222,341	717,771,341
1929	347,697,000	431,636,000	70,451,000	849,784,000	[1]	849,784,000
1930	355,580,000	494,683,000	74,470,000	924,733,000	[1]	924,733,000
1931	344,313,000	537,589,000	78,696,000	960,598,000	[1]	960,598,000
1932	325,104,000	514,139,000	75,570,000	914,813,000	75,355,746	990,168,746
1933	301,314,000	519,403,000	75,460,000	896,177,000	230,648,906	1,126,825,906
1934	316,754,000	566,642,000	80,714,000	964,110,000	235,742,915	1,199,852,915
1935	335,401,000	619,677,000	87,822,000	1,042,900,000	256,670,696	1,299,570,696
1936	374,920,000	691,420,000	95,025,000	1,161,365,000	297,141,888	1,458,506,888
1937	415,829,000	761,998,000	101,539,000	1,279,366,000	326,514,761	1,605,880,761
1938	405,246,000	771,764,000	105,190,000	1,282,200,000	267,959,169	1,550,159,169
1939	430,549,000	821,656,000	117,207,000	1,369,412,000	324,011,887	1,693,423,887
1940	457,091,000	870,136,000	129,360,000	1,456,587,000	416,394,228	1,872,981,228
1941	511,242,000	957,312,000	144,360,000	1,612,914,000	572,758,595	2,185,672,595
1942	470,864,000	844,855,000	126,600,000	1,442,319,000	626,054,686	2,068,373,686
1943	449,724,000	659,125,000	103,900,000	1,212,749,000	445,813,643	1,658,562,643
1944	445,620,000	680,950,000	103,300,000	1,229,870,000	486,097,168	1,715,967,168
1945	467,589,000	783,691,000	115,800,000	1,367,080,000	556,962,648	1,924,042,648
1946	551,318,000	1,064,681,000	151,000,000	1,766,999,000	798,406,000	2,565,405,000
1947	646,097,000	1,206,305,000	165,800,000	2,018,202,000	1,039,371,000	3,057,573,000
1948 [2]	755,183,000	1,350,028,000	180,000,000	2,285,211,000	1,157,000,000	3,442,211,000
Total	9,879,703,000	16,047,852,000	2,393,013,000	29,914,674,000	9,254,244,884	39,168,918,884

[1] Figures not available.
[2] 1948 figures are estimates from Facts and Figures, 1949, p. 44.

Sources: Public Roads Administration: Highway Statistics Summary to 1945, pp. 36 and 39; Highway Statistics 1946, pp. 20-22 and 41; Highway Statistics 1947, pp. 21, 22, 24, and 41; Automobile Manufacturers Association: 1948 ed. Facts and Figures, p. 42 (column 3).

TABLE 15.—*Highway expenditures and special motor vehicle taxes, 1929–48*

Year	Total public aid to highways	Special motor vehicle taxes paid by—				Percent of tax contributions to highway costs [1]			
		Private cars	Motor carriers of property	Motor carriers of passengers	All highway users	Private cars (2÷1)	Motor carriers of property (3÷1)	Motor carriers of passengers (4÷1)	All highway users (5÷1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Millions	*Millions*	*Millions*	*Millions*	*Millions*	*Percent*	*Percent*	*Percent*	*Percent*
1929	$2,013	$636	[2] $183	$31	$850	31.6	9.1	1.5	42.2
1930	2,299	694	[2] 195	36	925	30.2	8.5	1.6	40.2
1931	2,093	724	[2] 200	37	961	34.6	9.6	1.8	45.9
1932	1,661	736	215	39	990	44.3	12.9	2.3	59.6
1933	1,463	839	250	38	1,127	57.3	17.1	2.6	77.0
1934	1,782	888	275	37	1,200	49.8	15.4	2.1	67.3
1935	1,552	950	310	40	1,300	61.2	20.0	2.6	83.8
1936	2,261	1,057	358	44	1,459	46.7	15.8	1.9	64.5
1937	2,062	1,154	403	49	1,606	56.0	19.5	2.4	77.9
1938	2,426	1,109	397	44	1,550	45.7	16.4	1.8	63.9
1939	2,268	1,210	431	42	1,693	53.4	19.4	1.9	74.6
1940	2,160	1,336	493	44	1,873	61.9	22.8	2.0	86.7
1941	1,949	1,559	573	54	2,186	80.0	29.4	2.8	112.2
1942	1,544	1,445	556	65	2,066	93.6	36.0	4.2	133.8
1943	1,205	1,073	518	68	1,659	89.0	43.0	5.6	137.7
1944	1,230	1,064	561	93	1,718	86.5	45.6	7.6	139.7
1945	1,312	1,211	625	90	1,926	92.3	47.6	6.9	146.8
1946	1,932	1,718	766	86	2,570	88.9	39.6	4.5	133.0
1947	2,537	2,056	924	95	3,075	81.0	36.4	3.7	121.2
1948	2,987	2,281	1,087	105	3,473	76.4	36.4	3.5	116.3
1949	2,068	2,642	1,106	97	3,845	127.8	53.5	4.7	185.9

[1] Staff computation in studies under S. Res. 50.
[2] Does not include Federal excise taxes.

Source: Column (1), General Services Administration, Bureau of Public Roads letters July 22, 1949 and Nov. 17, 1950, accompanied by tables; column (2), staff computation of column 5 minus columns 3 and 4. Allocation of taxes between trucks, busses, and private cars based upon tables in Automobile Facts and Figures (1949, 1950), Automobile Manufacturers Association, as follows: Column (3) is column 8, p. 50 (1950); column (4) is column 3, p. 46 (1949) (1949 figure by telephone); column (5) is column 7, p. 48 (1950). Based on primary sources as follows: State motor vehicle registration and gasoline tax: U. S. Public Roads Administration—Special city, county, taxes and tolls: Estimated from data compiled by the Board of Investigation and Research and by Automobile Manufacturers Association from various surveys by the U. S. Public Roads Administration; tolls include both private and public facilities—Federal excise taxes: Bureau of Internal Revenue and U. S. Public Roads Administration.

NOTE.—All figures subject to possible revision. Special Motor Vehicle Taxes include State motor vehicle registration; State gasoline tax; special city and county taxes; bridge, tunnel, ferry, and road tolls; and Federal excise taxes. Income and property taxes are not included.

CHART 1

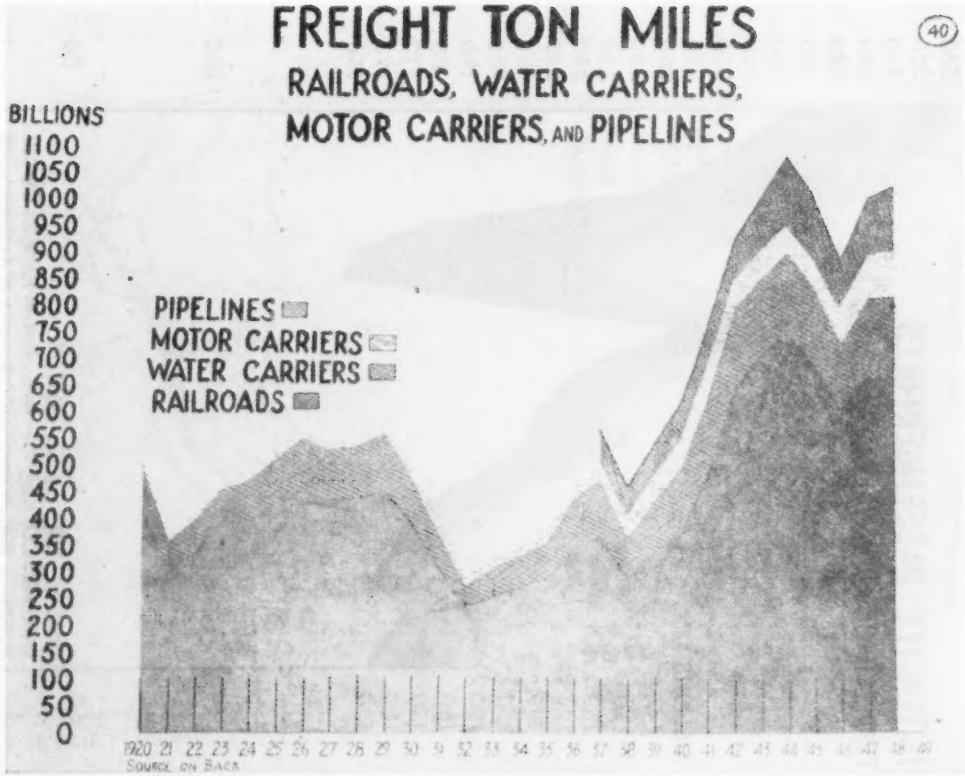

FREIGHT TON MILES
(40)
RAILROADS, WATER CARRIERS,
MOTOR CARRIERS, AND PIPELINES
BILLIONS
1100
1050
1000
950
900
850
800
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
PIPELINES
MOTOR CARRIERS
WATER CARRIERS
RAILROADS
1920 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49
SOURCE: ON BACK

CHART 2

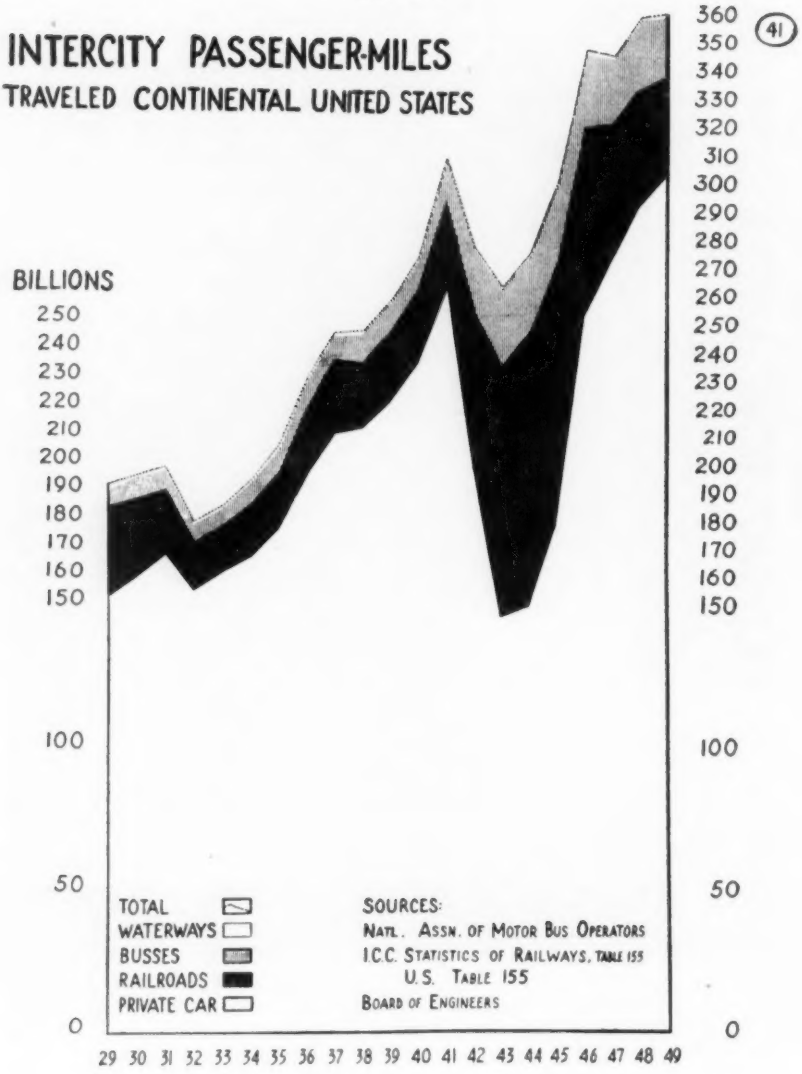
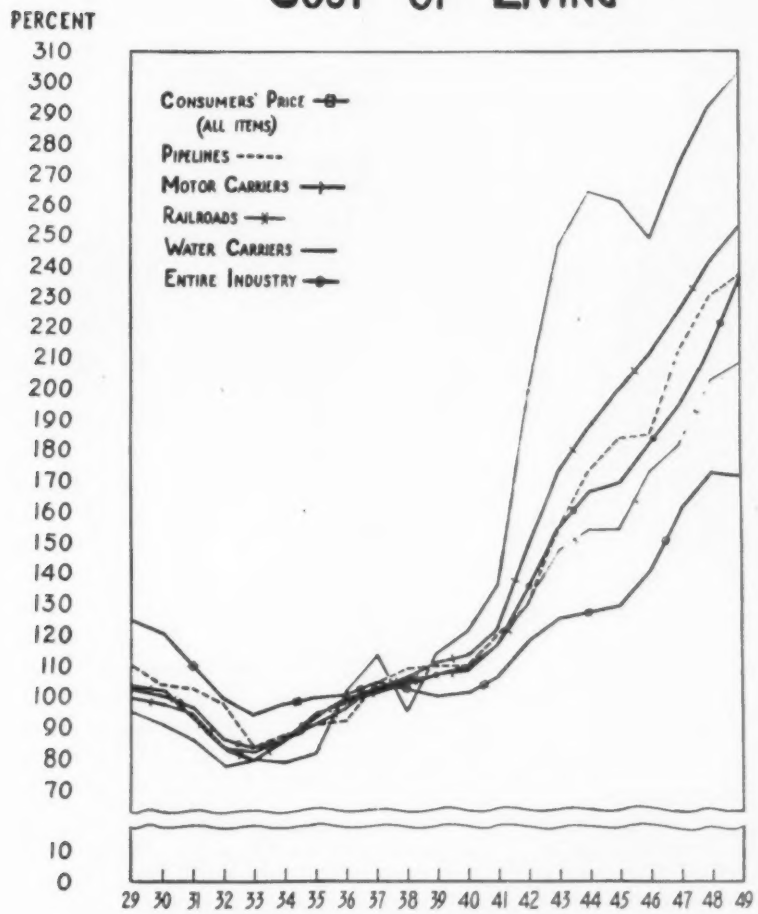

INTERCITY PASSENGER-MILES
TRAVELED CONTINENTAL UNITED STATES
BILLIONS
250
240
230
220
210
200
190
180
170
160
150
100
50
0
360
350
340
330
320
310
300
290
280
270
260
250
240
230
220
210
200
190
180
170
160
150
100
50
0
41
TOTAL
WATERWAYS
BUSSES
RAILROADS
PRIVATE CAR
SOURCES:
NATL. ASSN. OF MOTOR BUS OPERATORS
I.C.C. STATISTICS OF RAILWAYS, TABLE 155
U.S. TABLE 155
BOARD OF ENGINEERS
29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49

CHART 3

TREND OF WAGES AND COST OF LIVING

(37)



SOURCES: STATISTICS OF RAILROADS, A.A.R.
DEPARTMENT OF COMMERCE
DEPARTMENT OF COMMERCE (MID-MONTH COUNT)